

Arizona Corporation Commission



*Annual Report for
Fiscal Year 2006–2007*



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

Commissioners

Mike Gleason, Chairman (*as of March 2007*)

William A. “Bill” Mundell, Commissioner

Jeff Hatch-Miller, Commissioner
(*Chairman January 2005 – March 2007*)

Kristin Mayes, Commissioner

Barry Wong, Commissioner (*served July 2006 – January 2007*)

Gary Pierce, Commissioner

Executive Director

Brian C. McNeil

Administration

Michael Kearns

Corporations

Linda Fisher

Hearing

Lyn Farmer

Legal

Christopher Kempley

Safety

David Raber

Securities

Matt Neubert

Utilities

Ernest Johnson

Information Technology

Clark Lathrum

Main Office

1200 West Washington
Phoenix, AZ 85007

Adjunct Offices

1300 & 1400 West Washington
Phoenix, AZ 85007

Southern Arizona Office

400 West Congress Street
Tucson, AZ 85701

Services:

Commissioners’ Wing
Executive Director
Administration
Legislative Liaison
Public Information
Hearings
Legal
Utilities

Services:

Corporations
Securities

Services:

Corporations
Hearings
Utilities

Pipeline & Railroad Safety Division

2200 North Central, Suite 300
Phoenix, AZ 85004

Important Phone Numbers

Commissioners’ Wing..... 602-542-2237
Consumer Services – Utilities.....602-542-4251
Consumer Services – Corporations..... 602-542-3026
Consumer Services – Securities602-542-4242
Docket Control602-542-3477
Southern Arizona Office520-628-6554
Listen Line (live audio of hearings/open meetings)
602-542-0222
Toll Free Listen Line (area codes 928 and 520 only)
1-800-250-4525

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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. Each Division is headed by a Division Director who reports to the Executive Director.

Chairman Mike Gleason

Chairman Gleason was elected to the Commission in 2002 for a two-year term beginning in January 2003. In 2004, Gleason ran for a full, four-year term and was elected for a term that ends in January 2008. He was voted Chairman of the Commission in March 2007. Gleason is a resident of Sun City West in western Maricopa County. Born in Iowa, Gleason graduated from Iowa State College with a Bachelor of Science Degree in Forestry. Later, he obtained a master's degree in Range Management from Texas A&M University. He also holds a doctorate degree from Iowa State College in Plant Physiology.

Much of Gleason's career was spent in the agricultural sciences and consulting. He has resided in Mexico and France and has traveled extensively throughout the world during his professional career with such companies as Monsanto, Pacific Oilseeds, Cargill and the Rockefeller Foundation. His job duties have sent him to Peru, Kenya, Bangladesh, Senegal, Zaire, the Ivory Coast, Nigeria and Pakistan.

Gleason represented his West Valley district in the Arizona House of Representatives from 1996 through 2002. There, he served as

Chairman of the Agriculture and Natural Resources Committee as well as vice chairman of the Rural and Native American Affairs Committee. He also served on the Economic Development and International Trade, Transportation, Human Services and Rules committees. Focusing on agricultural and water issues, Gleason sponsored legislation to ensure the efficient regulation of irrigation districts, effective management of groundwater and the long term preservation of Arizona's allocation of Colorado River Water.

In furtherance of Gleason's efforts to ensure that Arizona's communities have dependable, long term water supplies, the Speaker of the House, Jim Weiers, appointed Gleason to serve as an ex officio member of the Arizona Water Banking Authority.

Gleason served as Precinct Committeeman and District Chairman before seeking elected office. He and his wife Shirley have been married for more than 50 years. Together, they have four children and several grandchildren.

Commissioner Bill Mundell

Commissioner William A. Mundell was born at Elmendorf Air Force Base in Anchorage, Alaska. He came to Arizona from Illinois in 1968 with his parents. He graduated from Arizona State University with a Bachelor of Art's degree in political science in 1974. He earned a Juris Doctor degree from St. Mary's University in San Antonio, Texas in 1977.

Mundell has been in private practice as an attorney in Chandler, Arizona since 1977, except from 1980 to 1986 when he served as the Presiding Judge of the Chandler Municipal Court. In 1986, he resigned as judge to run for the Arizona House of Representatives.

Mundell was first elected in 1986 and served as a member of the Arizona House of Representatives from 1987 to 1992. As chairman of the House Environment Committee, he sponsored numerous pieces of legislation protecting Arizona's environment, including the state's first recycling law. Additional committee assignments included Counties & Municipalities, Natural Resources & Agriculture and Judiciary. During his tenure at the legislature, he was voted "One of Arizona's Top 10 Legislators." He was a candidate for the United States Congress in 1992.

Mundell has served as a Judge Pro Tem on the Maricopa County Superior Court. His past civic and community service memberships include vice president of public policy, Chandler Chamber of Commerce; vice president of Arizona Heritage Alliance; president of the Chandler Fraternal Order of Police Associates; chairman, the United Way, the East Valley Partnership; board of directors, Chandler Regional Hospital; the Lions Club; and the Salvation Army Advisory Board.

Governor Jane Hull appointed Mundell to the Arizona Corporation Commission on June 21, 1999, after the Arizona Supreme Court determined that the former commissioner was ineligible to hold office. In the 2000 general election, he was elected to serve out the remaining four years of his term. He became

Chairman of the Commission in January 2001 and served in that capacity until January 2003. Mundell was re-elected in 2004 and his term runs through the end 2008.

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

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

Proposition 103, passed by voters in the 2000 election, expanded the Commission from three to five members and changed the term of office from a single six-year term to four-year terms with the option to run for a second term. The two new seats were phased in with an initial two-year term.

Commissioner Jeff Hatch-Miller

Commissioner Jeff Hatch-Miller was elected to the Arizona Corporation Commission in 2002 for a two-year term. He was re-elected to a four-year term in 2004 and voted Chairman of the Commission in January 2005, serving in that capacity until March of 2007. Since his inauguration in January 2003, Hatch-Miller has worked to ensure that Arizona's electric, natural gas, telecommunications, and water infrastructure needs are met for the 21st century.

Before his election to the Corporation Commission, Hatch-Miller served in the Arizona House of Representatives for two terms, from 1999 to 2003. He represented District 26, which included parts of Phoenix, Scottsdale, Tempe, and Paradise Valley. While in the Legislature, Hatch-Miller chaired the House Energy, Utilities and Technology Committee, sponsoring key legislation on behalf of the Corporation Commission that required Arizona's electric utilities to demonstrate the future viability and reliability of transmission systems, ensuring that Arizona's increasing power needs are met. Hatch-Miller also co-chaired the Electric

Industry Competition Study Committee, which convened hearings on the status of Arizona's retail electric markets.

During his first legislative term, Hatch-Miller served on the Transportation Committee, passing legislation that speeded construction of the state's highways, completing them in half the time originally proposed. He chaired the Joint Legislative Internet Study Committee, investigating issues of electronic privacy, taxation and 21st century communication systems. For his efforts, Hatch-Miller was honored as "Freshman Legislator of the Year 2000" by the National Republican Legislators Association.

From 1990 to 1996, Chairman Hatch-Miller worked for the University of Arizona where he helped rural Arizona towns improve their economic climate, keeping businesses healthy and increasing employment opportunities. For much of his professional career, he specialized in state-of-the-art corporate communications and organizational development.

Chairman Hatch-Miller graduated from the California State University at Stanislaus with a Bachelor of Arts degree and later obtained a Doctor of Education degree from the University of Northern Colorado. Early in his career, he taught at the middle school, high school and college levels. Chairman Hatch-Miller serves his community as Vice-Chairman of the Board of Directors of the Foundation for Senior Living. He is affiliated with the National Association of Regulatory Utility Commissioners and the North American Securities Administrators

Association, as well as with Toastmasters International, Scottsdale Leadership, the Arizona Historical Society, Arizona Town Hall.

A native of Modesto, California, Commissioner Hatch-Miller adopted Arizona as his home state in 1976. Though proud of his accomplishments as a public servant, he is most proud of his role as husband and father. He and his wife, Anita, have twin sons, Mark and Robert.

Commissioner Kristin Mayes

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

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

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

Commissioner Mayes was appointed 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 Barry Wong

(July 2006 – January 2007)

Barry Wong was appointed to the Arizona Corporation Commission in July 2006, to fill an open seat vacated by then-Chairman Mark Spitzer who resigned to take a position with the Federal Energy Regulatory Commission.

Wong served seven years (four terms) as a member of the Arizona House of Representatives representing District 18 in north central Phoenix. During his tenure, he was a leading small business advocate who championed the issues of technology, international trade, higher education and solar and renewable energy. He was chairman of many House committees including International Trade, Technology and Tourism, and Joint Audit. He also served on the Appropriations, Judiciary, Rules and Ways and Means Committees.

Wong is involved in numerous community and professional organizations. He is on the boards of directors of the Phoenix metropolitan chapter of the National Association of Women Business Owners (NAWBO), Arizona Asian American Association, Valley of the Sun School and Habilitation Center, and Chris-Town YMCA. He is a member, past president and board member of the World Affairs Council of Arizona, a member of the State Bar of Arizona and Valley Leadership Class XXIII, and an advisory board member of Make a Difference.

Mr. Wong is a life-long Arizonan. He holds degrees from the University of Arizona College of Law (J.D., 1984) and Arizona State University (B.S., 1981, Accounting).

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

Pierce 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.

**Executive Director
Brian C. McNeil**

Brian C. McNeil became Executive Director of the Arizona Corporation Commission on May 10, 1999. The Executive Director 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 Major in the U.S. Army Reserve.

**Administration
Division**

**Michael Kearns
Director/Deputy Executive Director**

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 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 Director, performing the duties of the Executive Director during the incumbent's temporary absences.

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 2006-07, the Commissioners and employees together:

- Contributed \$15,261 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; almost one third of the staff participated in the campaign.
- Donated 23 pints of blood in specially arranged blood drives held at the Commission's facilities;
- Donated several cases of canned food to help brighten the Christmas of needy families in the Valley;

- Fully supported and actively participated in environmental improvement activities such as the “Clean Air Force” (car pools, Don’t Drive One-in-Five Campaign and bus riding) and recycling of paper, newsprint, and aluminum cans.
- The Commission continued to fund a “Tuition Assistance” program for its employees. The objectives of the program include: improve job capability, performance and morale; encourage personal growth and development; and provide a source of qualified personnel for advancement as vacancies occur.

\$28.38 million (excludes miscellaneous service charges) was deposited in the state’s General Fund.

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.

In addition to revenue deposits, the Business Office issued 603 purchase orders, 2865 + claims; received and entered 537 items into inventory; and serviced 330 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 by the Administration Division Director 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, salesperson or agent registrations. During FY 2006-07 the Business Office received and processed \$49.2 million in revenue to the State Treasurer, of which

Corporations Division

Dave Raber
Director
(through March 2007)

Linda Fisher
Director
(from March 2007)

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

The Corporations Division approves the filing of 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, 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 (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 information to them in the most expedient 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 (Corporate filing, 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, 2007, there were a total of 480,465 corporations and LLCs transacting business in the State of Arizona.

Total Active Corporations & LLCs	480,465
Annual Reports Mailed.....	158,496
Annual Reports Filed*	152,681
Total Phone Calls Handled** ...	195,783

*LLCs are not required to file an Annual Report. There are some annual reports that are returned as undeliverable. Also, there were 31,703 annual reports electronically filed using the e-File option.

** Includes 49,500 telephone calls handled by the Tucson Office.

Corporate Filings Section

Some of the key documents processed by the Section during FY 2006-07 were as follows:

Domestic Articles of Incorporation	11,081
Foreign Applications for Authority	3,011
Amendments	2,716 w/LLCs 15,413
Domestic and foreign mergers.....	469 w/LLCs 725
Domestic LLCs	48,097
Foreign applications for LLCs	3,479
Dissolutions/Withdrawals	5,783

In addition to filing documents, the section fielded more than 11,216 phone inquiries.

Call Center Section

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

Incoming Calls.....	129,203
Total Phone Calls Handled.....	97,371

Annual Reports Section

The documents processed by the Annual Reports Section during FY 2006-07 were as follows:

Annual Reports filed.....	152,681
E-filed Annual Reports	31,703
Original Annual Reports mailed	158,496
Duplicate Annual Reports mailed	10,393
Total Reinstatements	1,022
Pending notices of administrative dissolution or revocation	29,072
Notices of administrative dissolution or revocation mailed.....	9,645

In addition to filing documents, the section fielded more than 30,188 phone inquiries.

Records Section

The Records Section processed 90,322 records orders by mail and over the counter during FY 2006-07.

In addition to filing documents, the section fielded more than 7,508 phone inquiries. The Commission acts as an agent for Arizona corporations and LLCs whenever either entity does not maintain a statutory agent or when the agent cannot be located. In these instances, services of process directed to the Commission are accepted and processed by the Records Section.

Information Technology

In FY 2006-2007, the Commission performed a complete overhaul of its web server. The changes not only made the website more attractive and easy for the public to use, but also allows each Division to manage their own web content for their customers and the public. This change allows the Corporations Division to provide quicker updates on fast changing information like filing times and it also insures that the most current instructions and forms are always available to the public.

In FY 2006-2007, the Corporations Division performed extensive research, analysis and planning to replace the aging STARPAS database and application (public access system for corporation and LLC filings). Development of a replacement for the STARPAS System is anticipated to begin during FY 2008.

IPS Section

This section is the initial point of the process for all Annual Report related documents, Amendments, Articles of Incorporation, Articles of Organization, Name Reservations, Changes, Application for Authority to Transact Business and Application for Authority to Conduct Affairs. With regard to each of these documents, this section processes the filing fee, bar codes and stamps the document, and transmits information into a computerized tracking system. Then IPS scans the documents into the Division's imaging system for subsequent review by examiners in the Annual Reports and Corporate Filing sections. The IPS section is also responsible for transmitting corporate and LLC information into the STARPAS system and preparing documents to be microfilmed.

The following documents were processed by the Initial Processing Section during FY 2006-07:

Payments processed.....	213,528
Documents Scanned.....	318,135

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, 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 and through written procedural orders. Rate and Certificate of Convenience and Necessity (CC&N) applications are processed under the procedural schedule established by the Administrative Law Judges, in order to ensure that proposed Opinion and Orders are issued in a timely manner within the framework of the Commission's "timeclock" rules.

During FY 2006-07, the seven Administrative Law Judges in the Division conducted 341 public hearings/arbitrations, encompassing a total of 373 days.

Based upon the record evidence presented at public hearings, or filings made in non-hearing matters, the presiding Administrative Law Judge prepares a recommended order, which sets forth the pertinent facts, discusses

applicable law, and proposes a resolution of the case for the Commissioners' consideration. The Commission regularly holds Open Meetings to deliberate and vote upon the recommended orders.

During FY 2006-07, the Hearing Division prepared a total of 165 recommended orders—90 for cases involving a hearing and 75 for non-hearing matters which are mainly rate applications for small water companies, CC&N applications and extensions of CC&Ns.

While cases are pending before the Commission, the presiding Administrative Law Judge may issue procedural orders to govern the preparation and conduct of the proceedings, including: discovery, intervention, the hearing date, filing dates, public notice, and motions. During FY 2006-07, the Hearing Division issued 508 such orders.

During FY 2006-07, major rate cases that were resolved included: Arizona Public Service Company, Black Mountain Sewer Company, Far West Water and Sewer Company, Arizona-American Water Company, Gold Canyon Sewer Company, and Avra Water Company. Along with the major rate cases resolved, the Hearing Division also resolved Arizona Electric Power Cooperative's and UNS Electric Company's finance applications, Arizona Public Service Company's request to acquire a power plant, Tucson Electric Power Company's Request to Amend a Decision, and Desert Hills Water Company's transfer and cancellation of their CC&N. The Hearing Division was also involved in resolving Arizona Public Service Company's emergency rate application along with its application for a Power Supply Adjustor (PSA) surcharge increase and reviewed the Qwest Price Cap Plan.

During FY 2006-07, significant time was invested in hearings and procedural orders

related to the following cases: Far West Water and Sewer Company, Gold Canyon Sewer, Arizona Public Service Company, Arizona-American Water Company, Avra Water Company, and UNS Gas Company. Cases that were technical in substance and also included lengthy hearing days were: Arizona Water Company (Extension), McLeodUSA vs. Qwest (Complaint), Desert Hills Water Company (Order to Show Cause/Complaint); Accipiter vs. Cox (Complaint), Qwest vs. Cox (Complaint) (both Phase I and Phase II were completed), Arizona Public Service Company (Acquire Power Plant), and Tucson Electric Power Company (Amendment of a Decision). The Hearing Division has also seen an increase in the number of Securities Cases.

During FY 2006-07, the Hearing Division worked with the IT Division to implement a calendar "e-Case." Additional refinements are underway to eDocket and eCase. Docket Control continues to scan final decisions from prior years. Work also continues to implement microfilm conversion of scanned documents.

As to FY 2007-08, the Hearing Division anticipates a heavy hearing workload related to the Arizona-American's rate cases for its Anthem, and Sun City Water divisions along with its Sun City West and Anthem/Agua Fria Wastewater divisions, Southwest Gas' and Tucson Electric Power Company's rate cases, Graham County Electric Cooperative's application for a rate increase, UNS Gas rate case, UNS Electric rate case, the Gold Canyon Sewer Company's request to Amend its Decision, the Chaparral City Water Company remand proceeding, rulemaking and generic dockets, significant telecommunication arbitrations, and water company rate and financing cases related to compliance with the federal maximum arsenic levels.

The following public hearings were held during FY 2006-07:

Types of Hearings/Cases	Number
Pre-Hearing Conferences.....	88
Orders to Show Cause and Complaints	44
Certificates of Convenience and Necessity.....	28
Rate Cases	27
Securities Division	28
Miscellaneous (oral arguments, motions to compel, etc.).....	10
CC&N Extensions.....	42
Transfers/Sales.....	18
Railroad/Pipeline Safety Group	8
Public Comments.....	9
Rules (new and amended).....	3
Arbitration.....	10
Generic Investigations.....	0
Deletions	1
Tariff.....	0
Line Extensions/Agreements	0
Financing.....	10
Adjudications.....	1
Line Siting	2
Mergers	1
Amend Decisions.....	11
TOTAL.....	341

During FY 2006-07, the Docket Control Center processed the following documents:

Responses to Inquiries/ Research/Assistance.....	10,300
Filings docketed & distributed ...	11,577
Opinion and Orders/Administrative Closures processed and mailed ..	1,036
New applications input.....	878
Open Meeting items processed	1,100
Certifications	130
Transcripts logged & microfilmed Utilities	329
Securities.....	31
Corporations.....	N/A

Docket Control Center

In FY 1980-81, the Commission requested and obtained legislative approval to establish a docket control center to ensure the integrity and security of official Commission records.

The Docket Control Center maintains the official records for the Utilities, and Securities Divisions of the Corporation Commission. In this regard, Docket Control's functions are similar to a Clerk of the Court's office. The Docket Control Center also assists the public and staff in retrieving the files and transcripts of cases for use in research.

Information Technology (IT) Division

Clark Lathrum
CIO/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 (IT) provides technical support for the entire Arizona Corporation Commission.

The staff is organized into three specialty areas:

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

In FY 2006-2007, the Commission performed a complete overhaul of its web server. The changes not only made the website more attractive and easy for the public to use, but also allows each Division to manage their own web content for their customers and the public. This change allows the Corporations Division to provide quicker updates on fast changing information like filing times and it also insures that the most current instructions and forms are always available to the public.

Significant IT Division achievements during Fiscal Year 07 include:

- Development and deployment of a calendar application addition to the eDocket System to give the public and staff online access to scheduled Commission proceedings.
- A complete redesign of the agency's web site to provide easier navigation and an enhanced user experience for citizens and staff.
- Upgrades and enhancements to audio-visual systems to provide expanded access to commission proceedings via the Internet for the public and staff.
- The Commission's wireless network was enhanced to provide expanded access to citizens and staff within the commission's buildings.
- Significant power and environmental data center upgrades to provide better continuity of service.
- Extensive research, analysis and planning to replace the aging STARPAS database and application (public access system for corporation and LLC filings). Development of a replacement for the STARPAS System is anticipated to begin during FY 08.
- Implementation of an IT Project Management Office to better manage IT projects and resources.

Legal Division

Chris Kempley
Chief Counsel

Mission: *To provide professional, high quality legal representation to the Corporation Commission in the performance of all of its powers and duties, except for matters pertaining to the activities of the Securities Division.*

The Legal Division represents the Commission in all matters relating to public utility regulation and in other areas not associated with the Securities Division. Securities-related legal cases are litigated by the 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 territory or the implementation of rate increases.

The Commission is also authorized to exercise continual review over the operations of public service corporations and to act when necessary to further the public interest. Legal Division representation in these matters is varied and includes representing the Utilities Division and advising the Commissioners on legal issues.

Federal Dockets

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

Key federal proceedings included:

- 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
- Participation in federal dockets involving the Federal Universal Service Fund; and
- Participation in federal dockets involving consumer protection measures.
- Gas pipeline proceedings before the Federal Energy Regulatory Commission (FERC).

In addition, during FY 2006-07 the Legal Division continued to represent the Commission in FERC dockets concerning the gas and electric industries to ensure that the public interest of Arizona is considered in these matters. The Division also represented the Commission in Federal Communication Commission (FCC) dockets.

Litigation

The Legal Division represents the Commission before a variety of courts and either has pending or has recently concluded cases before municipal and justice courts, county Superior Courts, the State Court of Appeals and the State Supreme Court, as well as before various federal district and appeals courts, including the United States Supreme Court. As in previous years, the majority of

cases filed or pending during FY 2006-07 involved Commission decisions related to restructuring of the telecommunications and electric industries.

The Division participated in continued civil litigation involving arbitrations of interconnection agreements between Qwest and competitive telecommunications providers.

The Legal Division also has been called upon to represent the Commission in Bankruptcy Court in matters involving regulated utilities and also represented the Commission in litigation involving the Corporations Division.

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 has responsibility for the filing of Articles of Incorporation, Certificates of Disclosure, and Annual Reports which must be submitted to the Commission by every corporation doing business within the State of Arizona. The Legal Division advises the Corporation Division on these administrative matters.

Special Projects

The Legal Division participates in the adoption and revision of all rules for the Corporations Division and the Utilities Division, including the Pipeline and Railroad Safety Sections. It has also represented the Commission in litigation that has occurred following the rulemakings.

The Commission continues to be engaged in a series of proceedings related to the restructuring of the telecommunications industry. The Legal Division represents the Commission or its staff in a variety of proceedings related to competition in the telecommunications markets.

The Division devoted extensive resources to interconnection agreement arbitrations between Qwest and other competitive telecommunications providers, formal complaints filed against Qwest by its competitors, and assisting with several generic dockets including the review of the Arizona Universal Service Fund and an examination of Preferred Provider agreements and their impact on competition. Preferred Provider Agreements are typically entered into between a developer and a telecommunications provider and generally contain marketing preferences and other favorable arrangements exclusive to the telecommunications provider that is a party to the agreement.

The Division also has been an active participant in Qwest's formal complaint proceeding against Cox Telecom involving alleged violation by Cox of its interconnection agreement with Qwest and alleged inappropriate access and damages to Qwest's facilities.

Additionally, the Division has participated in an ongoing review of the Environmental Portfolio Standard originally established by order of the Commission in 2001. In February 2004, the Commissioners ordered the staff and interested parties to review the rules and study several possible changes to the rules, including requiring regulated utilities to obtain a larger portion of their energy from renewable resources. In February 2006, the Commissioners approved a larger, more aggressive plan to adopt renewables and renamed it the Renewable Energy Standards and Tariff. The new rules are expected to become effective FY 2007-08.

APS filed a new rate case with the Commission in November 2005. In January 2006, the Commissioners granted interim rate relief to APS and issued its final decision on the new rates in June 2007. In FY 2004-05, Southwest Gas filed its first full rate case since 2001. The Division's participation in that case continued throughout this fiscal year until it was resolved with a Commission decision in February 2006. A number of other rate cases for smaller, regional utilities were scrutinized by the Division during FY 2006-07.

Under state statutes no utility may construct an electric power plant or transmission line without first obtaining a Certificate of Environmental Compatibility from the Power Plant and Line Siting Committee that then must be approved by the Commission. The Division was involved in the review of a 100-mile interstate transmission line that would connect the Palo Verde hub to the Devers substation located in California. The Commission denied the siting of this line as against the public interest and the applicant has appealed the Commission's decision to Maricopa County Superior Court.

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

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

staff, additional Legal Division personnel are assigned to advise the Commissioners.

The Commission's rules relating to transactions with unregulated affiliates have been in effect since FY 1992-93. The rules create an ongoing responsibility to consider and process applications and reports under the rules. The filings of applications and reports under the rules, all of which require scrutiny by Legal Division attorneys, can be expected to continue indefinitely.

Safety Division

Dave Raber
Director

(from March 2007)

Mission: *To enforce Federal and State regulations affecting pipeline and railroad safety. To enforce the Underground Facilities Law, and to provide information and guidance to excavators and utility owners in an attempt to eliminate damage and to prevent personal injuries and deaths associated with underground facilities. To ensure that the citizens of Arizona, as well as railroad employees throughout the state, have a railroad system that is operated and maintained in as safe a manner as possible.*

The Safety Division was formed in March 2007 and consists of two groups—Pipeline Safety and Railroad Safety. The Pipeline Safety Section 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 Section oversees the operation and maintenance of all railroad operations, track maintenance and railroad/street grade crossings.

Pipeline Safety Section

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

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 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 six interstate natural gas transmission pipelines, one interstate hazardous liquid pipeline, 16 major intrastate gas pipeline operations, one intrastate liquefied natural gas facility, six intrastate gas transmission pipelines, three intrastate hazardous liquid pipelines and 1,057 master meter natural gas operations.

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

As a result of the cause of the rupture and concerns about the structural integrity of the rest of Kinder Morgan’s system, the Pipeline Safety Group participated in additional, detailed inspections of Kinder Morgan pipelines in FY 2005-06. During this time Kinder Morgan replaced all the remaining 8” lines between Tucson and Phoenix with new 12” pipeline. In addition, in 2007 Kinder

Morgan completed work on a new 16" liquid pipeline completing their expansion of service into the Tucson area.

Section Staff completed a right of way inspection and records review of the El Paso Pipeline network in Phoenix, Tucson, Ehrenberg, Flagstaff, and the Deming West Complex and Mohave Pipeline. Transwestern, Questar, and the North Baja Pipeline were also inspected during this fiscal year.

During FY 2006-07, the Pipeline Safety Section inspected 16 major intrastate natural gas distribution pipeline operators, 6 intrastate gas transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators and 1 intrastate liquefied natural gas operator. In addition to the comprehensive inspections above; Pipeline Safety Section staff also spent 14 days conducting construction inspections, 37 specialized inspections and 35 incident investigations of major intrastate operators. The Pipeline Safety Group conducted 710 comprehensive inspections, 227 specialized inspections, 726 follow-up inspections and 177 construction inspections of master meter natural gas distribution systems.

Also during FY 2006-07, the Pipeline Safety Section investigated 182 reported violations of the Underground Facilities Law, issued 68 notices of violations and collected \$36,000 in fines.

Staff also received 1,070 notices of incidents from pipeline operators and pipeline operators shut off gas service to 42 master meter gas systems requiring repair. During FY 2006-07, the Pipeline Safety Section provided 24 training workshops for 771 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 18 Blue Stake seminars held state-wide with attendance in excess of 1,500

and also presented two specialized training classes for major pipeline operators.

The Pipeline Safety Section, in conjunction with the U.S. Department of Transportation's Transportation Safety Institute, presented one two-day seminar.

Beginning in March of 2008, Pipeline Safety will oversee and inspect the construction of 255 miles of new 42" and 36" steel pipeline being constructed by Transwestern Pipeline.

Railroad Safety Section

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 Consultants are located in the Tucson office and one in Lake Havasu City. 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 2006-07, the Section inspected 1,474 miles of track, 2,507 freight cars, 116 locomotives, 490 crossings, and 23 industrial track facilities. It also made 3,349 inspections of manufacturers that ship and receive hazardous materials by rail. Additionally, 1,205 signal and train control devices were inspected. The Section investigated 36 train derailments, along with 46 grade crossing accidents and 43 complaints received from other governmental agencies, railroad employees or the public. 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 and state funds. From the list, the Commission publishes an array of about 30 of those crossings each year. 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. FY 2006-07 has proven to be one of the busiest years on record for the number of crossing applications submitted for the Commission's review. The biggest reason for this is the fact that the Union Pacific Railroad is constructing the first new border-to-border track in Arizona in the last fifty years. This construction activity, referred to as the "Union Pacific Double Track Project" requires that the Commission consider modifications to more than 50 at-grade crossings stretching from Bowie, Arizona near the New Mexico border all the way to Yuma, Arizona on the California border.

The Section is also very active in the National Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing and trespasser safety. The Commission's award-winning video, "Operation Lifesaver," is widely used in the Arizona High School Driver Education and Driver Survival Programs as well as other driver safety programs around the country. During FY 2006-07, Railroad Safety Staff gave four 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 2006-07 the Section processed 2,236 dealer and 149,741 salesman registrations.

In addition, the Section processed 3,732 investment adviser representative licenses and 1,774 state investment adviser licenses and federal investment adviser notice filings.

The Section conducted 72 field examinations of dealers and investment advisers.

The Section processed 21,331 applications for securities registration, 1,923 filings for various exemptions from registration, and 2,169 name change requests during FY 2006-07.

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 2006-07, the Division initiated 25 investigations and had a total of 74 cases under investigation at year-end.

The Corporation Commission is authorized to enter cease and desist orders, to assess fines, and to order restitution. The Commission may also apply to the Superior Court of Maricopa County for an injunction and the appointment of a conservator or receiver. It 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. 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 2006-07, the Division filed 20 administrative proceedings involving 57 respondents, filed four civil actions involving 11 defendants, and assisted state and federal law enforcement agencies in obtaining 26 indictments.

During the same period, the Corporation Commission issued 25 Cease and Desist Orders against 56 respondents based on Division actions. The Commission also ordered 20 respondents to pay \$11,624,814 in restitution and 27 respondents to pay \$2,387,348 in penalties. The Commission revoked or suspended four licenses or registrations.

Civil matters filed by the Division resulted in orders requiring \$76,448,389 in restitution be paid and \$2,510,000 in penalties. Criminal prosecutions assisted by Division staff

resulted in 23 guilty pleas during this fiscal year with defendants being ordered to pay \$169,939,226 in restitution.

These actions resulted in money being paid into Arizona's General Fund. The Commission's funding is appropriated through the normal state budget process.

Office of General Counsel

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

In FY 2006-07, the general counsel office finalized two rulemakings, one of which updated the multijurisdictional disclosure system exemption from registration and one of which significantly revised the requirements for investment advisers that take or have custody of client funds or securities.

Division duty officers responded to approximately 2,497 inquiries from the public regarding the substance of the Securities and Investment Management Acts and 1,850 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 and an active speakers' bureau that makes presentations to civic, consumer and educational groups across

Arizona. The Securities Division believes that an informed investor is the best defense against preventing investment fraud.

In FY 2006-07, the Securities Division conducted 58 public education programs. This outreach included communities outside Maricopa County such as Yuma, Tucson, and Flagstaff. During this time period, the Commission's investor education web site, www.azinvestor.gov, experienced a significant increase in "hits" and the Securities Division received an increase in requests for investor educational materials.

In addition to group presentations, the Securities Division distributes investor educational materials through its radio programs, press releases, newspaper articles, and printed materials available at libraries and in the public 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.

For the ninth consecutive year, the Securities Division participated in "Financial Literacy 2020," a campaign targeting high school economics teachers across America. This 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 maintains strategic partnerships with other agencies and non-profit organizations in order to further educational efforts. These partners include the U.S. Securities and Exchange Commission, the Arizona Attorney General, the Maricopa Elder Abuse Prevention Alliance, the Elder Fraud Prevention Task Force and the Arizona Jump\$tart Coalition.

The Securities Division will continue its aggressive investor education programs into FY 2007-08 with additional events and presentations.

Utilities Division

Ernest G. Johnson
Director

***Mission:** To recommend thoroughly-researched, sound regulatory policy and rate recommendations to the Commissioners, which are based on a balanced analysis of the benefits and impacts on all stakeholders and are consistent with the public interest.*

The Utilities Division monitors the operations of approximately 719 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 a reasonable return on fair value for public service corporations.

The Division reviews utility company financial records and recommends to the Commission appropriate revenue and rate requirements. With the exception of small public service corporations, these requests for rate changes must be determined in an evidentiary hearing. Regardless of the size of the public service corporation, all rate changes require approval of the Commission in an open meeting.

Staff preparation for a major rate hearing begins at the time of the utility's initial filing, and takes approximately four to six months before the hearing takes place. Work efforts between the time of filing and a hearing include a review of documents on file with the Commission; an audit of the books and records of the utility; on-site inspections of plants and facilities; discussions with utility personnel and interested parties; formulation of the staff recommendation; and preparation of written testimony and schedules.

As a result of 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 2006-07, the Division devoted significant resources to the following major efforts:

- APS FERC Transmission Cost
- Biennial Transmission Assessment
- Analysis of a rate case filed by Arizona Public Service (APS) and an emergency interim rate request filed by APS;
- Analysis and testimony in the Southwest Gas rate case;
- Arbitration between Incumbent Local Exchange Carriers (ILEC) & Competitive Local Exchange Carriers (CLEC) (including Cox vs Qwest, Cox vs Accipiter, Qwest vs Eschelon, Qwest vs CLEC)
- Federal mandate (Telephone Wire Center)
- UNS Electric Rate Case
- UNS Gas Rate Case
- Gold Canyon Sewer Rate Case

- Development of revised Water and Sewer Certificate of Convenience and Necessity (CC&N) Rules
- Tucson Electric Power Company Rate Case
- Chaparral City Rate Case
- Arizona-American Rate Case
- Review and preparation of recommendations on certain energy efficiency programs proposed by utilities
- Review of mergers and acquisitions, including mega-mergers between Verizon and MCI as well as Southwestern Bell Companies and AT&T
- Examination, open meetings and review of the facts surrounding unplanned outages at the Palo Verde Nuclear Generating Station
- Review and approval of new rules requiring utilities to derive an increased percentage of energy from renewable resources
- Continued participation in bankruptcy proceedings involving the McLain water utilities in southern Arizona
- Analysis and preparation of Staff's testimony in other rate cases and Certificates of Convenience and Necessity
- Analysis of data and preparation of a staff report in the Tucson Electric Power rate review proceeding
- Participation in several transmission line siting cases, including the review of the 100-mile Pinal West to Southeast Valley transmission line
- Investigation of Preferred Carrier Agreements in the telecommunications arena
- Review of water company rate requests related to compliance with the new EPA standard for arsenic
- 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	372
Local exchange carriers	72
Other telecommunications	300
Water utility companies.....	291*
Sewer companies.....	27*
Water and Sewer	19*
Electric companies.....	21
Gas utilities.....	5
Irrigation Companies.....	1

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

Financial & Regulatory Analysis

This Section is primarily responsible for the preparation of testimony and staff reports for utility rate cases. These documents address accounting issues, reasonableness of expenses, costs of capital, overall revenue requirement, and, ultimately, staff's rate recommendations to the Commissioners.

During FY 2006-07, the Section analyzed numerous applications, including rate related cases filed by APS, Qwest, Southwest Gas,

Arizona Water Company and Southwest Transmission Cooperative as well as a number of water company rate cases.

The new Environmental Protection Agency (EPA) standard limiting the arsenic level in drinking water is resulting in significant cost increases to small water companies. The staff is continuing to review filings from water companies for arsenic-related compliance costs.

The section also provided analysis and recommendations regarding public utility mergers, debt and equity issuances, transfers of assets, purchased power and gas adjustor revisions, and applications for CC&Ns.

Telecom & Energy Section

The Telecom and Energy Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities and rural electric and gas cooperatives. The section also analyzes and implements telecommunications policies adopted by the Commission. The staff uses a variety of computer models, quantitative techniques and qualitative methods in its utility evaluations and research. Recommendations are presented to the Commissioners 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 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), telecommunications and electric companies and one irrigation company. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage and consumer inquiries.

The Engineering Section assists the Consumer Services Section with the technical aspects of complaints received from utility customers. The engineers accompany Consumer Services Section personnel on investigations of such complaints. Assistance is also provided to other sections in the processing of CC&N applications for all regulated utilities.

The Engineering Section assists the Financial & Regulatory Analysis Section in the processing of rate case applications, financing applications, changes to purchased power and fuel adjusters and other cases. Inspections are performed to determine whether a utility plant is “used and useful.” The Engineering Section staff also conducts cost of service studies for the utilities, including gas.

In the water/wastewater area, the engineers monitor the operation of over 400 individual water and sewer systems. These systems range in size from less than 10 connections to over several thousand connections. The engineering staff also assists in the processing of water main extension agreements.

The electrical engineers monitor the operation and maintenance of all generating and

transmission resources within Arizona. This includes the nation’s largest nuclear plant, the Palo Verde Nuclear Generating Station, located approximately 50 miles west of Phoenix. The Engineers also support Commission representatives who serve on the Arizona Power Plant and Transmission Line Siting Committee. Engineers assist in determining the environmental compatibility of newly-proposed generating stations and transmission lines.

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

In the area of telecommunications, the Telecommunications Engineers review tariff filings, various telecommunications applications and evaluate the various facilities comprising the telecommunications network in Arizona. The Telecommunications Engineers also participate in the telecommunications dockets and are responsible for addressing service quality issues.

In addition, the Engineering Section maintains a 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, billings, terminations and quality of service and facilities of public service corporations.

The Section engaged in the following activities during FY 2006-07:

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 2006-07, the Consumer Services Section held 10 public comment/town hall 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 2006-07, the Consumer Services Section conducted 2 arbitration/mediations.

Meter Testing: The Consumer Services Section, tests water meters when the accuracy of the meter reading is questioned. During FY 2006-07, the Consumer Services Section tested 59 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 13 field investigations in FY 2006-07.

Complaints & Inquiries: The following table lists the total complaints and inquiries

handled by the Consumer Services Section in FY 2006-07 by utility type and complaint or inquiry type:

Communication Companies	1,751
Sewer Companies	101
Water Companies	1,472
Electric Companies	1,796
Gas Companies	1,011
TOTAL.....	6,131

Billing issues	2,045
Deposit issues	217
New service issues.....	304
Service issues.....	259
Quality of service.....	1,155
Disconnect/termination.....	297
Repair issues	155
Rate case items.....	81
Rates/tariffs.....	209
Other issues.....	2,039
Misc/Non-jurisdictional.....	299
TOTAL.....	7,060

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 2006-07, the Compliance Section reported the following compliance actions:

- 719 annual reports were mailed to utilities and monitored for filing.

- 492 compliance actions were entered into the compliance database for monitoring.
- 1,515 compliance filings were made by utilities in response to the requirements of Commission Decision or Rules.
- 129 utilities were required to remit an annual assessment, which was monitored for compliance. (Lower this fiscal as a result of minimum gross revenues being raised to \$500,000.)
- 201 Non-compliance notices were sent to utilities that failed to comply with filing requirements.

Annual Reports.....	719
Central File items.....	745
Staff Reports	198
Tariffs Administratively Approved..	443
Testimony.....	86



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

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 2006-07 include:

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. 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 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>2005-06</u>	<u>2006-07</u>	<u>2007-2008</u>
Corporation Filing Fees*	10,737,061	10,606,840	10,750,000
Security and Broker Fees*	14,855,647	15,945,288	16,000,000
Miscellaneous Service Charges**	49,579	63,952	50,000
Fines & Forfeitures*	2,271,452	1,832,390	1,500,000
Utility Assessments	12,787,893	10,285,470	13,787,164
Sec Regulatory & Enforcement Fund	3,202,725	3,409,905	3,400,000
Sec Investment Management Act Fund	1,734,992	1,902,898	1,900,000
Public Access Fund	4,312,866	4,396,492	4,400,000
Federal Grant***	<u>602,542</u>	<u>719,246</u>	<u>600,000</u>
TOTAL	50,554,757	49,162,481	52,387,164

*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>2005-06</u>	<u>2006-07</u>	<u>2007-2008</u>
Administration & Hearing Divisions	3,808,200	4,065,750	4,601,217
Corporations Division	4,399,600	4,678,938	5,414,587
Securities Division	4,248,400	4,606,940	5,184,651
Railroad Safety Section	550,300	581,184	602,491
Pipeline Safety Section	1,325,900	1,414,404	1,801,616
Utilities Division	5,843,500	6,101,906	6,327,609
Legal Division	1,627,700	1,706,702	2,015,276
Information Technology	<u>2,474,300</u>	<u>2,757,657</u>	<u>3,333,953</u>
TOTAL	24,277,900	25,913,481	29,281,400

Table 3
Expenditures by Fund Source

Expenditures by Fund Source	Actual	Actual	Estimated
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-2008</u>
General Fund	5,210,400	5,474,077	5,857,400
Arts Trust Fund	44,000	46,131	51,300
Sec. Regulatory & Enforcement Fund	3,118,300	3,454,839	3,976,800
Sec. Investment Management Act Fund	829,000	887,526	935,100
Utility Regulation Revolving Fund	11,816,800	12,515,632	13,669,300
Public Access Fund	3,055,900	3,336,690	4,385,400
Pipeline Safety Revolving Fund	---	---	55,400
Federal Funds**	<u>203,500</u>	<u>198,586</u>	<u>350,700</u>
TOTAL	24,277,900	25,913,481	29,281,400

**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 Cummard	Democrat	1933-1934
W. M. Cox	Democrat	1935-1940
William Peterson	Democrat	1941-1946
William Eden	Democrat	1944-1947
William T. Brooks	Democrat	1947-1958
Yale McFate	Democrat	1947-1948
Mit Simms	Democrat	1949-1958
Timothy D. Parkman	Republican	1954
John H. Barry	Democrat	1955-1956
E. T. "Eddie" Williams, Jr.	Democrat	1957-1968
George F. Senner, Jr.	Democrat	1959-1962
A. P. "Jack" Buzard	Democrat	1959-1962
John P. Clark	Republican	1963-1964
Milton J. Husky	Democrat	1965-1970
Dick Herbert	Democrat	1965-1971
Charles Garland	Republican	1969-1974
Russell Williams	Republican	1970-1974
Al Faron	Republican	1970-1976
Ernest Garfield	Republican	1973-1978
Bud Tims	Republican	1975-1983
Jim Weeks	Democrat	1977-1982
Stanley Akers	Republican	1979-1980
John Ahearn	Democrat	1980-1981
Diane McCarthy	Republican	1981-1984
Richard Kimball	Democrat	1983-1985
Junius Hoffman	Democrat	1984
Marianne Jennings	Republican	1984
Sharon Megdal	Democrat	1985-1986

Renz Jennings	Democrat	1985-1999
Marcia Weeks	Democrat	1985-1996
Dale Morgan	Republican	1987-1995
Carl J. Kunasek	Republican	1995-2001
Jim Irvin	Republican	1997-2003
Tony West	Republican	1999
William “Bill” Mundell	Republican	1999-present
Marc Spitzer	Republican	2001-2006
Mike Gleason	Republican	2003-present
Jeff Hatch-Miller	Republican	2003-present
Kristin Mayes	Republican	2003-present
Barry Wong	Republican	2006
Gary Pierce	Republican	2007-present

Southern Arizona Office

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

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

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



Arizona Corporation Commission

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Southern Arizona Office

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