

Arizona Corporation Commission

Annual Report for Fiscal Year 2008–2009



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

Directory

Main Office

1200 West Washington
Phoenix, AZ 85007

Adjunct Offices

1300 & 1400 West Washington
Phoenix, AZ 85007

Pipeline & Railroad Safety Division

2200 North Central, Suite 300
Phoenix, AZ 85004

Southern Arizona Office

400 West Congress Street
Tucson, AZ 85701

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: 602-542-0222
(live audio of hearings/open meetings)

Toll Free Listen Line: 1-800-250-4525
(area codes 928 and 520 only)

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July 2008-December 2008

Mike Gleason, Chairman

William A. "Bill" Mundell, Commissioner

Jeff Hatch-Miller, Commissioner

Kristin Mayes, Commissioner

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

January 2009-June 2009

Kristin Mayes, Chairman

Gary Pierce, Commissioner

Sandra Kennedy, Commissioner

Paul Newman, Commissioner

Bob Stump, Commissioner

Interim Executive Director

Michael Kearns

Administration

Michael Kearns

Corporations

Linda Fisher

Hearing

Lyn Farmer

Legal

Janice Alward

Safety

David Raber (until May 2009)

Securities

Matt Neubert

Utilities

Ernest Johnson

Information Technology

Clark Lathrum

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.

Mike Gleason, Chairman (2007-2008)

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

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. 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.

Kristin Mayes, Chairman (2009-present)

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.
- 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.

Administration Division

**Michael Kearns
Director/Interim 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 2008-09, the Commissioners and employees together:

- Contributed \$16,333 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.
- Two of the contributing employees were leadership givers, donating \$1,000 per year.
- Commission employees reported an average of 25 hours per month of volunteer time to non-profit groups, totaling approximately 300 hours of volunteer time per year.
- Donated 27 pints of blood in specially arranged blood drives held at the Commission's facilities;
- 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.

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 2008-09 the Business Office received and processed nearly \$72 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.

In addition to revenue deposits, the Business Office issued 483 purchase orders, 2344 claims; received and entered 76 items into inventory; and serviced 298 employees through personnel actions and payroll transactions.

Corporations Division

Jeff Grant
Interim Director

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 (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, 2009, there were a total of 585,789 corporations and LLCs transacting business in the State of Arizona.

Total Active Corporations & LLCs.....	585,789
Annual Reports Mailed	191,192
Annual Reports Filed	226,491
Total Phone Calls Handled.....	150,477

Corporate Filings Section

Some of the key documents processed by the Section during FY 2007-08 were as follows:

Domestic Articles of Incorporation	8,199
Foreign App. for Authority.....	2,495
Amendments	2,553 w/LLCs 16,336
Domestic and Foreign Mergers	463
..... w/LLCs	647
Domestic LLCs.....	45,616
Foreign applications for LLCs	2,090
Dissolutions/Withdrawals.....	4,321

In addition to filing documents, the section fielded more than 6,897 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.....	125,176
Total Phone Calls Handled.....	102,464

Annual Reports Section

The documents processed by the Annual Reports Section during FY 2008-09 were as follows:

Annual Reports filed.....	156,479
E-filed Annual Reports	70,012
Original Annual Reports mailed	191,192
Duplicate Annual Reports mailed	10,812
Total Reinstatements.....	3,133
Pending notices of administrative dissolution or revocation	46,686
Notices of administrative dissolution or revocation mailed.....	15,707

In addition to filing documents, the section fielded 26,312 phone inquiries.

Records Section

The Records Section processed 35,965 records orders by mail and over the counter during FY 2008-09. 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

During FY 2008-09, the development phase began on the new STARPLUS system. STARPLUS will replace the 15 year-old current incorporating application (STARPAS) and website. This project is receiving significant and increasing resources from both the IT Division and the Corporations Division. The STARPLUS application is slated to be deployed in FY 2010.

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 2008-09:

Payments processed.....	138,424
Documents Scanned.....	325,704

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 2008-09, the eight ALJs in the Division conducted 267 public hearings/arbitrations, encompassing a total of 496 days. The ALJs also conducted 211 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 2008-09, the Hearing Division prepared a total of 195 recommended orders, 84 for cases involving a hearing and 111 for non-hearing matters. These recommended orders resolved rate applications, CC&N applications and extensions of CC&Ns, 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 2008-09, the Hearing Division issued 648 procedural orders.

During FY 2008-09, major rate cases that were resolved included: Tucson Electric Power Company (rates/settlement), Arizona Public Service Company (Interim Rates), Southwest Gas Corporation, Chaparral City Water Company, Water Utility of Greater Scottsdale, Picacho Peak Water Company, Oak Creek Water Company, ICR Water Company and Ash Fork Water Company. Along with the major rate cases resolved, the Hearing Division also resolved finance matters including two Arizona Electric Power Cooperative, Inc. financings, and financings for Trico Electric Cooperative, Pine Water Company and Picacho Peak Water Company. The Hearing Division also conducted a water and sewer Rulemaking, a

Qwest telecom arbitration, a Valley Utilities Water Company emergency rate and financing case, and issued 21 recommended orders on railroad crossings, and numerous recommended orders on non-hearing rate cases, CC&N applications, and extensions of time to a previous Decision. The Hearing Division also issued its recommended order on Reserve Gas and Oil, a Securities Cease and Desist matter with administrative penalties

During FY 2008-09, significant time was invested in hearings, procedural conferences, and procedural orders related to the following rate cases: Arizona Public Service Company (Interim and Permanent Rates), Wickenburg Ranch Water Improvement District, Johnson Utilities Company, Chaparral City Water Company (Interim Rates), ICR Water Company, Chaparral City Water, Wilhoit Water Company (multiple systems), Utility Systems (multiple systems), Far West Water and Sewer (Emergency Rates), H2O, Inc, Arizona-American Water Company, Sulphur Springs Valley Electric Cooperative, Inc., Beaver Dam Water Company, Sunrise Water Company, Trico Electric Cooperative, Inc., Solar Alliance (Declaratory Order), Qwest/Eschelon (Arbitration), Universal Service Fund (Rulemaking), CC&N Rules; Arizona Public Service Company/Verizon (Underground Conversion), Arizona Water Company (CC&N Extension), Arizona Public Service Company (Sale of Assets); and various CC&N application and extension cases.

The Hearing Division has recently seen an increase in Securities cases, along with numerous requests for extension of time to comply with previous Commission Decisions.

As to FY 2009-10, the Hearing Division anticipates another heavy hearing year with rate cases such as Arizona Public Service Company, UNS Electric, UNS Gas, Black Mountain Sewer Company, Park Water Company, Johnson Utilities, Arizona Water Company, Arizona-American Water Company (multiple systems), Valley Utilities, Community Water Company of Green Valley, Pineview Water Company, Farmers Water Company, Global Water – Palo Verde, Litchfield Park Service Company, Graham County, Columbus Electric, Rio Rico and Coronado Utilities. In addition, the Hearing Division is anticipating additional Commission rulemakings, CC&N hearings, a hearing on SolarCity's application for Adjudication that it is not a public service corporation, as well as additional cases filed by various utilities and by the Securities and Safety Divisions.

During FY 2008-09, the Hearing Division worked with the IT Division to implement additional refinements to *e-Docket* which allows internal and external users to view the historic and pending cases. The refinements enhanced the ability of users to research and find relevant documents. Docket Control continues to scan final decisions from prior years and began converting scanned documents into microfilm.

The following public hearings were held during FY 2008-09:

Type of Hearing	Number
Orders to Show Cause and Complaints.....	45
Certificates of Convenience and Necessity	28
Rate Cases.....	73
Securities Division.....	18
Miscellaneous (oral arguments, motions to compel, etc.)	5
CC&N Extensions	11
Transfers/Sales	1
Railroad/Pipeline Safety Group.....	12
Public Comments	36
Rules (new and amended)	3
Arbitration	4
Generic Investigations	3
Deletions.....	1
Tariff.....	0
Line Extensions/Agreements.....	6
Financing.....	18
Adjudications.....	2
Line Siting.....	1
Mergers.....	0
Amend Decisions	0
SUB TOTAL	267
Pre-hearing Conferences	211
TOTAL	478

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, decisions, and transcripts of cases for use in research.

During FY 2007-08, the Docket Control Center processed the following documents:

Responses to Inquiries/ Research/Assistance.....	7,800
Filings docketed & distributed	9,900
Opinion and Orders/Administrative Closures processed and mailed	796
New applications input.....	625
Open Meeting items processed	790
Certifications	142
Transcripts logged & microfilmed	
Utilities	439
Securities.....	1
Corporations	N/A

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 2009, the development phase continued on the new STARPLUS system. STARPLUS will replace the 16 year-old current incorporating application (STARPAS) and website. This project is receiving significant and increasing resources from both the IT Division and the Corporations Division. The STARPLUS application is scheduled to be deployed the fourth quarter of FY 2010.

The IT Division enhanced the Commission's eDocket system to provide a Subscription Service for users to subscribe to updates about dockets of interest. The subscription service was implemented using RSS, a proven technology for distributing information over the Internet. Subscribing to a docket automatically informs the subscriber of docket status changes, CC&N status changes, new document filings (including decisions), and the scheduling information of key docket events that appear in the eDocket Calendar. The eDocket system was also enhanced to provide expanded reporting capabilities and easier navigation. Additionally, new eDocket infrastructure was implemented which supports extending eDocket to other divisions in the agency and provides a more reliable and extensible platform.

Other significant IT Division achievements of Fiscal Year 2009:

- Expanded and enhanced the Commission's mobile computing capabilities, providing staff more options and flexibility in accessing data and network resources.
- Developed an Enterprise Procurement System (EPS) to automate and streamline the Commission's internal procurement process and provide the opportunity for a paperless

procurement environment. The EPS application is scheduled for implementation very early in FY 2010.

- Began a significant project to expand automation of Utilities Division business processes and provide integration with eDocket. This project is currently in the planning/design phase and is scheduled to move into the development phase during FY 2010.
- Continued to upgrade and expand electronic document management services across the agency to support moving towards a paperless environment.
- Utilized virtual server technology to provide more efficient and cost-effective use of existing data center resources.
- Continued to expand a business intelligence infrastructure that supports increased reporting options to agency staff and the public.
- Utilized and refined project management procedures and standards which enabled more effective and streamlined resource allocation.
- The IT Division is also continually focused on improvements to existing applications and processes, 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 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.

During FY 2008-09, 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;

- Participation in federal dockets involving the Federal Universal Service Fund and Intercarrier Compensation;
 - Participation in federal dockets involving consumer protection measures;
 - Participation in gas pipeline proceedings before FERC; and
- Participation in matters before FERC related to efforts to invoke federal backstop authority in order to site transmission lines in Arizona.

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 district and appeals courts.

The cases filed or pending during FY 2008-09 involved challenges to Commission decisions in rate applications, CC&N applications, or other utility-related matters.

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

The Division is also participating in challenges in the Ninth Circuit Court of Appeals to the Department of Energy's designation of a national interest electric transmission corridor in the Southwest. The matter has been fully briefed, and the parties are waiting for the court to set oral argument.

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

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.

The Division has also been involved in various cases related to Southern California Edison's efforts to site a transmission line in Arizona.

Finally, the Division has represented the Commission in litigation concerning the formation and publication requirements for Limited Liability Companies.

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 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 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 also has been an active participant in several arbitration proceedings involving Qwest and competitive local exchange carriers.

The Division is also assisting the staff with several generic dockets involving telecommunications including review of the Arizona Universal Service Fund, Intrastate Access Charges and Preferred Provider Agreements.

Additionally, the Division has participated in proceedings leading to the adoption of the Commission's REST Rules. The new rules became effective in August, 2007.

APS filed a new rate case with the Commission in March 2008. In June 2008 APS requested interim rate relief until resolution of its pending rate case. The interim rate request was decided in December 2008, and APS' general rate case remains pending.

In August 2007, Southwest Gas filed for further rate increases. A Commission decision is anticipated in late 2008.

A number of other rate cases for smaller, regional utilities were addressed by the Division during FY 2008-09.

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. In 2007 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. While the Superior Court matter is currently stayed, the company began the pre-filing approval process in early 2008 with the Federal Energy Regulatory Commission under EPCAct 2005.

In conjunction with its activities in the areas of electric regulation 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 Legal Division has also 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.

The major cases before the Commission usually include an advisory staff assigned to act as a separate party in order to advise Commissioners and Commissioners' staff without violating the ex parte communications rule. 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.

Safety Division

Director
VACANT

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 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 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, one interstate hazardous liquid pipeline, 16 major intrastate gas pipeline operations, 1 intrastate liquefied natural gas facility, 6 intrastate gas transmission pipelines, 3 intrastate hazardous liquid pipelines and 1004 master meter natural gas operations.

Section Staff completed right of way inspections and record reviews of the El Paso Pipeline network in Phoenix, Tucson, Ehrenberg, and the Deming West Complex and Mohave Pipeline. Kinder Morgan, Transwestern, Southwest Gas Transmission (SGTC) and the North Baja Pipeline were also inspected during this fiscal year.

During FY 2008-09, the Pipeline Safety Section inspected 16 major intrastate natural gas and Liquefied Petroleum Gas (LPG) distribution pipeline operators, 6 intrastate gas transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators and 1 intrastate liquefied natural gas (LNG) operator. In addition to the comprehensive inspections above; Pipeline Safety Section staff also spent 28 days conducting construction inspections, conducted 27 specialized inspections and 12 incident investigations of major intrastate operators.

The Pipeline Safety Group conducted 718 comprehensive Master Meter (MM) inspections, 176 specialized MM inspections, 337 follow-up MM inspections and 218 construction MM inspections of master meter natural gas distribution systems.

Also during FY 2008-09, the Pipeline Safety Section investigated 199 reported violations of the Underground Facilities Law, issued 54 notices of violations and collected \$61,750 in fines.

Staff also received 1257 notices of incidents from pipeline operators and pipeline operators shut off gas service to 162 master meter gas systems requiring repair.

During FY 2008-09, the Pipeline Safety Section provided 17 training workshops for 266 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 25 Blue Stake seminars held state-wide with attendance of nearly 2115.

The final construction inspection on the new Phoenix Lateral extension being constructed by Transwestern Pipeline was completed in December 2008. Pipeline Safety personnel inspected and oversaw the construction of the 255 miles of new 42" and 36" steel 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 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 2008-09, the Section inspected 1,125 miles of track, 2,891 freight cars, 213 locomotives, 207 crossings, and 12 industrial track facilities. It also made 4,035 inspections of manufacturers that ship and receives hazardous materials by rail. Additionally, 143 signal and train control devices were inspected. The Section investigated 13 train derailments, along with 35 grade crossing accidents and 36 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 20 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. During FY 2008-09 the Commission approved 13 crossing improvement projects.

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 2008-09, Railroad Safety Staff gave two 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 2008-09 the Section processed 2,175 dealer and 155,817 salesman registrations.

In addition, the Section processed 4,988 investment adviser representative licenses and 1,931 state investment adviser licenses and federal investment adviser notice filings.

The Section conducted 53 field examinations of dealers and investment advisers.

The Section processed 23,322 applications for securities registration and notice filings, 1,489 filings for various exemptions from registration, and 2,155 name change requests during FY 2008-09.

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 2008-09, the Division initiated 55 investigations and had a total of 94 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 2008-09, the Division filed 45 administrative proceedings involving 111 respondents, filed one civil action involving one defendant, and assisted state and federal law enforcement agencies in obtaining 20 indictments.

During the same period, the Corporation Commission issued 48 Cease and Desist Orders against 97 respondents based on Division actions. The Commission also ordered 62 respondents to pay \$111,757,090 in restitution and 70 respondents to pay \$11,785,456 in penalties. The Commission revoked or suspended seven licenses or registrations.

Criminal prosecutions assisted by Division staff resulted in 56 guilty pleas during this fiscal year with defendants being ordered to pay \$20,566,767 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.

Division duty officers responded to approximately 3,016 inquiries from the public regarding the substance of the Securities and Investment Management Acts and 1,601 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 preventing investment fraud.

In FY 2008-09, the Securities Division conducted 50 public education programs. This outreach included both communities inside Maricopa County and other communities across the state such as Tucson and Casa Grande.

In addition to group presentations, the Securities Division distributes its investor educational message and materials through radio, PBS 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.

For the twelfth 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, including teaching guides and interactive games such as FSI: Fraud Scene Investigator.

The Securities Division maintains strategic partnerships with other agencies and non-profit 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

Ernest Johnson
Director

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

The Utilities Division monitors the operations of approximately 670 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 that could include a physical inspection of the facilities; formulation of the staff recommendation; 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 2008-09, the Division devoted significant resources to the following major efforts:

- Biennial Transmission Assessment
- Arizona Public Service Company Rate Case
- Arbitration between Incumbent Local Exchange Carriers (ILEC) & Competitive Local Exchange Carriers (CLEC)
- UNS Electric Rate Case
- UNS Gas 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
- Arizona Water Rate Case
- Review and preparation of recommendations on certain energy efficiency programs proposed by utilities
- Review of mergers and acquisitions
- Analysis and preparation of Staff's testimony in 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	332
Local exchange carriers	98
Other telecommunications	307
Water utility companies.....	287*
Sewer companies.....	26*
Water and Sewer	19*
Electric companies.....	15
Gas utilities.....	6
Irrigation Companies.....	2

*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 2008-09, the Section analyzed numerous rate-related cases, including applications filed by Arizona Public Service, Tucson Electric Power Company, UNS Electric, Arizona-American Water

Company and Arizona Water Company, 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.

Additionally, the new Environmental Protection Agency (EPA) standard limiting the arsenic level in drinking water is resulting in significant cost increases to small water companies. Consequently, Section analysts have reviewed many filings from water companies for approval and recovery of arsenic-related compliance costs.

Similarly, the American Recovery and Reimbursement Act of 2009 has made available to Arizona companies approximately \$80 million dollars in funds for water infrastructure projects. As a result, the Section is evaluating an unusually large volume of financing applications, all requiring expedited processing.

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 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 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 2008-09:

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 2008-09, the Consumer Services Section held 11 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 2008-09, the Consumer Services Section conducted 11 arbitration/mediations.

Meter Testing: The Consumer Services Section, tests water meters when the accuracy of the meter reading is questioned. During FY 2008-09, the Consumer Services Section tested 42 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 5 field investigations in FY 2008-09.

Opinions: During a pending rate case, consumers are able to provide feedback to the Commission which becomes docketed with the case. During FY 2008-09, the Consumer Services Section handled 9,081 opinions.

Complaints & Inquiries: The following table lists the total complaints and inquiries handled by the Consumer Services Section in FY 2008-09 by utility type and complaint or inquiry type:

Communication Companies.....	1,215
Sewer Companies.....	82
Water Companies.....	1,087
Electric Companies.....	1,661
Gas Companies	1,893
TOTAL	5,938

Billing issues.....	1,691
Deposit issues.....	272
New service issues	198
Service issues	198
Quality of service	1,073
Disconnect/termination	397
Repair issues.....	91
Rate case items	132
Rates/tariffs	223
Other issues	2,160
Misc/Non-jurisdictional	875
TOTAL	7,310

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 2008-09, the Compliance Section reported the following compliance actions:

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

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 2008-09 include:

Annual Reports	667
Staff Reports	124
Tariffs Administratively Approved .	261
Testimony.....	91

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.

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>2007-08</u>	<u>2008-2009</u>	<u>2009-2010</u>
Corporation Filing Fees*	11,313,802	10,225,455	11,400,000
Security and Broker Fees*	17,340,166	17,507,756	18,300,000
Miscellaneous Service Charges**	60,899	242,771	50,000
Fines & Forfeitures*	7,364,978	5,064,797	1,500,000
Utility Assessments	13,979,846	27,233,974	13,544,306
Sec Regulatory & Enforcement Fund	3,588,437	3,721,960	3,578,900
Sec Investment Management Act Fund	2,125,945	2,156,059	2,232,000
Public Access Fund	4,577,675	3,843,047	4,570,000
Federal Grant***	<u>594,680</u>	<u>693,000</u>	<u>600,000</u>
TOTAL	60,946,428	70,688,819	55,775,206

*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	Actual	Actual	Estimated
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-2010</u>
Administration & Hearing Divisions	4,532,500	4,378,100	4,557,105
Corporations Division	4,941,100	4,503,300	4,821,315
Securities Division	4,833,000	4,469,400	5,075,866
Railroad Safety Section	671,600	627,300	641,857
Pipeline Safety Section	1,709,200	1,656,000	1,678,171
Utilities Division	6,183,100	5,548,400	6,265,866
Legal Division	1,902,600	1,856,400	1,894,486
Information Technology	<u>3,100,000</u>	<u>2,870,700</u>	<u>2,668,289</u>
TOTAL	27,873,100	25,909,600	27,602,955

Table 3

Expenditures by Fund Source	Actual	Actual	Estimated
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-2010</u>
General Fund	5,655,300	4,212,900	600,000
Arts Trust Fund	47,900	51,100	51,100
Sec. Regulatory & Enforcement Fund	3,652,800	3,152,200	4,746,000
Sec. Investment Management Act Fund	924,800	881,700	762,200
Utility Regulation Revolving Fund	13,469,000	13,665,600	14,467,900
Public Access Fund	3,783,400	3,473,400	6,370,000
Pipeline Safety Revolving Fund	47,400	---	---
Federal Funds**	<u>292,500</u>	<u>472,700</u>	<u>605,755</u>
TOTAL	27,873,100	25,909,600	27,602,955

**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



Arizona Corporation Commission

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Southern Arizona Office

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