

Arizona Corporation Commission

Annual Report for Fiscal Year 2011–2012



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

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Gary Pierce, Chairman

Bob Stump, Commissioner

Sandra Kennedy, Commissioner

Paul Newman, Commissioner

Brenda Burns, Commissioner

Executive Director

Ernest G. Johnson

Administrative Services

Kim Battista

Corporations

Patricia Barfield

Hearing

Lyn Farmer

Legal

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Utilities/ Pipeline and Railroad Safety

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Information Technology

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Table of Contents

Mission.....	4
About the Commission	4
Commissioners	5
Executive Director.....	10
Administration Division.....	11
Corporations Division.....	12
Hearing Division	14
Information Technology Division.	17
Legal Division.....	18
Securities Division.....	21
Utilities Division.....	23
Appendix	28
Commissioners Since Statehood....	30

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.

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.

Gary Pierce, Chairman

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 Bob Stump

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

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

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

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

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

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

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

Commissioner Sandra Kennedy

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

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

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

- Tutor for Valley Christian Center and Valle Del Sol
- Board member of the Arizona Cactus Pine Girl Scout Council

- Ex-Officio Member of Phoenix Community Alliance
- Former Board member of the Community Excellence Project
- Performer with the Arizona Black Theatre

Additional Accomplishments of Sandra Kennedy:

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

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

Commissioner Paul Newman

Paul Newman was born and raised on his family's dairy farm in New Jersey. He earned a B.A. in Behavioral and Social Science from the University of Maryland, a Master in Public Administration and a Master in Judicial Administration from University Southern California, and a Juris Doctorate from California Western School of Law. Before moving to Arizona in 1988, he was an administrator, researcher, and consultant with the California court system where he served as Court Management Consultant for the National Center for State Courts, California Supreme Court, Los Angeles Municipal Court, Sacramento Municipal Court and San Diego Superior Court from 1976 through 1986.

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

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

As an example of his dedication to the environment, as Cochise County Supervisor,

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

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

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

Commissioner Brenda Burns

Raised in a military family, Brenda Burns lived many places while growing up. In 1969 she moved to Arizona and made it her home. As an owner/manager of a family business, Brenda learned firsthand the impact which laws, rules and regulations can have on a small business' ability to succeed and create jobs.

Brenda Burns' business experience was invaluable when she began her long history of representing Arizonans. She first served in the Arizona House of Representatives from 1987 to 1995. In 1993, Republican House members elected Brenda to the position of Majority Leader, making her the first woman to hold the position in Arizona.

Brenda served eight years in the Arizona State Senate. In 1997, she became the first woman to hold the position of Arizona Senate President. As Senate President, Brenda was instrumental in the formation and passage of the State's \$6 billion dollar budget and reduced the Senate's multimillion dollar budget by over eight percent.

A champion of taxpayers, she led successful efforts to reduce and keep taxes low for both individuals and business. Brenda's persistent emphasis on protecting Arizona citizens from high taxes, high regulatory costs and excessive spending led to her recognition by the U.S. Small Business Administration as "a leader in regulatory reform".

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

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

Executive Director

Ernest G. Johnson

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

Administrative Services Division

**Kim Battista
Director**

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

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

Administrative Services

The Administrative Services Division is responsible for providing all accounting, payroll, purchasing and personnel support for the Commission as well as budget preparation. The Commission's budget is developed and submitted in coordination with the Executive Director and the Directors of the divisions within the Commission. Fiscal information related to the budget and expenditures is included in Appendix A.

The Administrative Services Division is also the Commission's main point of contact with other state agencies involving

business activities such as purchasing, budgeting and processing revenue.

The Administrative Services Division processes funds received by all Commission Divisions, but primarily from fees paid to the Corporations and Securities Divisions for corporate filings, securities dealer, and salesperson or agent registrations. During FY 2011-12 the Administrative Services Division received and processed almost \$60 million in revenue to the State Treasurer.

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

In addition to revenue deposits, the Administrative Services Division issued 196 purchase orders, 1609 claims; received and entered 284 items into inventory; and serviced 255 employees through personnel actions and payroll transactions.

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 corporations doing business in Arizona must be monitored and, in some cases, implemented by the Commission.

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

Additionally, the Legislative Liaison 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 2011-12, the Commissioners and employees together:

- Commission employees contributed through individual donations and pledges to the State Employees Charitable Campaign, which supports United Way agencies, national health agencies, international service agencies and local unaffiliated agencies.
- Commission employees volunteer time to non-profit groups, donate blood in specially arranged blood drives held at the Commission's facilities; and
- Fully support and actively participate in environmental improvement activities such as the "Clean Air Force" (car pools, Don't Drive One-in-Five Campaign, bus riding) and recycling of paper, newsprint, and aluminum cans.

Corporations Division

Patricia L. Barfield
Director

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

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

The Division collects from every corporation an annual report, which reflects its current status and business, and maintains this information in a format conducive to public access, responds to public questions concerning Arizona corporation and LLC documents, and responds to the needs of the business sector by disseminating information to them in the most expedient manner possible.

Any significant changes to Articles of Incorporation (corporations) or Articles of Organization (LLCs) in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed

with the Division. All filings are public record and are available for inspection. Copies of documents may be obtained for a nominal fee.

The Corporations Division has limited investigatory powers and no regulatory authority. Arizona corporations and LLCs, however, may be administratively dissolved if certain statutory requirements are not met. Likewise, the authority of foreign (non-Arizona) corporations or LLCs to transact business in Arizona may be revoked.

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

Overview of Activity

As of June 30, 2012, there were a total of 726,528 corporations and LLCs transacting business in the State of Arizona.

Total Corporations & LLCs.....	726,528
Annual Reports Filed.....	134,863
Total Phone Calls Handled.....	109,328

Corporate Filings Section

Some of the key documents processed by the Section during FY 2011-12 were as follows:

Domestic Articles of Incorporation.....	6,704
Foreign Application For Authority....	2,497
Amendments – corporations.....	2,395
Amendments – LLCs.....	15,738
Domestic and Foreign Mergers.....	237

Domestic Articles of Organization (LLCs).....	50,328
Foreign applications for LLCs.....	2,820
Dissolutions/Withdrawals.....	1,678
LLC terminations.....	5,124

Call Center Section

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

Incoming Calls.....	141,102
Total Phone Calls Handled.....	109,328

Annual Reports Section

The documents processed by the Annual Reports Section during FY 2011-12 were as follows:

Annual Reports filed.....	134,863
E-submitted Annual Reports	97,835
Total	
Reinstatements.....	7,555
Notices of Pending Administrative Dissolution or Revocation.....	42,812
Certificates of Administrative Dissolution or Revocation	18,321

Records Section

The Records Section processed 31,951 records orders received by mail, fax, and over the counter during FY 2011-12. The Commission acts as an agent for Arizona corporations and LLCs whenever either entity does not maintain a statutory

agent or when the agent cannot be located. In these instances, service of process directed to the entity is accepted by the Records Section on behalf of the corporation or LLC. The Records Section accepted service 1,773 times during FY 2011-12.

Initial Processing Section

This Section is the beginning point of processing and examination for nearly all documents received by the Division, including Annual Reports, Amendments, Articles of Incorporation, Articles of Organization, Name Reservations, Changes, Applications for Authority to Transact Business and Applications for Authority to Conduct Affairs. The Initial Processing Section processes filing fee payments, bar codes and stamps the document, and enters information into a computerized tracking system (STARPAS). The Section then scans the documents into the Division’s imaging system for subsequent review by examiners in the Annual Reports and Corporate Filing sections. The Section also prepares documents to be microfilmed.

The following payments and documents were processed by the Initial Processing Section during FY 2011-12:

Payments processed	110,984
Documents Scanned	244,402

Hearing Division

Lyn Farmer
Chief Administrative Law Judge

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 ALJ from the bench. Rate and Certificate of Convenience and Necessity ("CC&N") applications are processed under the procedural schedule established by the ALJs, 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 2011-12, the eight ALJs in the Division conducted 298 public hearings/arbitrations, encompassing a total of 354 days. The ALJs also conducted 128 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 2011-12, the Hearing Division prepared a total of 132 recommended orders, 51 for cases involving a hearing and 81 for non-hearing matters. These recommended orders resolved rate applications, CC&N applications and extensions of CC&Ns, Securities cases, and various other matters.

While cases are pending before the Commission, the presiding ALJ 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 2011-12, the Hearing Division issued 507 procedural orders.

During FY 2011-12, major rate cases that were resolved included: Arizona Public Service Company; Southwest Gas Corporation; UNS Gas, Inc.; Arizona-American Water Company (Agua Fria Water, Havasu Water, and Mohave Water

Districts); Arizona-American Water Company (Anthem-Agua Fria Wastewater District Deconsolidation); Arizona Water Company (Western Division); SemStream Arizona Propane, L.L.C.; Pima Utility Company; and Litchfield Park Service Company (Water and Wastewater).

Other significant rate cases that were resolved in FY 2011-12 include: Goodman Water Company; Doney Park Water; Bermuda Water Company; Cedar Grove Water, Inc; Bradshaw Water Company, Inc.; Chino Meadows II Water Co., Inc.; Indiada Water Company, Inc., East Slope Water Company, and Antelope Water Company (Rates/Finance); and many small, non-hearing water company rate cases.

During FY 2011-2012, significant time was also invested in hearings, procedural conferences, and procedural orders related to the following cases: Arizona Public Service Company (Acquisition of Four Corners Generating Units and Accounting Order); Arizona-American Water Company (Waiver/Intent to Reorganize); Quest Corporation DBA CenturyLink-QC (Classify Certain Services as Competitive/Non-Essential); Navopache Electric Cooperative, Inc. (Rates); Mohave Electric Cooperative (Rates); Pima Utility Company (Water and Wastewater Rates); DII Emerald Springs (Rates/CC&N); Tusayan Water Development (Rates); Picacho Water Improvement (Emergency Rates); multiple telecommunications carrier applications for Commission Designation as an Eligible Telecommunications Carrier; Truxton Canyon (Order to Show Cause

Rehearing); Cerbat Water Company (Rates/Finance/Order to Show Cause); Radical Bunny, LLC (Securities); and Morgan Financial, L.L.C. (Securities).

The Hearing Division handled numerous proceedings related to Commission Decisions re-opened pursuant to A.R.S. § 40-252, including: Bureau of Indian Affairs v. Mohave Electric Cooperative (Complaint); Johnson Utilities Company (Rates): Mohave Electric Cooperative, Inc.(Waste-to-Energy Facility); Tucson Electric Power Company (CEC); Vail Water Company (Rates/Finance); and Black Mountain Sewer Corporation (Rates/Treatment Plant).

The Hearing Division also conducted numerous complaint proceedings brought against utilities such as Tucson Electric Power Company; Qwest Corporation; Johnson Utilities, Inc.; Navopache Electric Cooperative, Inc.; Montezuma Rimrock; and Payson Water Co., Inc.

The Hearing Division issued numerous recommended orders on non-hearing rate cases, financing applications, CC&N applications, railroad crossings, and extensions of time to a previous Decision

As to FY 2012-13, the Hearing Division anticipates a heavy hearing year conducting rate cases such as: Tucson Electric Power Company; Mohave Electric Cooperative; Arizona Electric Power Cooperative, Inc.; Southwest Transmission Cooperative, Inc.; Graham County Cooperative; Arizona Water (Northern Group); Global Water – Palo

Verde Utilities Company, Global Water-Santa Cruz Water Company, Valencia Water Company-Greater Buckeye Division and Town Division, Water Utility of Greater Tonopah, Inc., Water Utility of Northern Scottsdale, and Willow Valley Water Co., Inc.; Kohl's Ranch Water Company; Clear Springs Utility Company, Inc.; Arizona Telephone Company; Morenci Water and Electric Company; Far West Water & Sewer, Inc.; Avra Water Cooperative, Inc.; Rio Rico Utilities, Inc.; Valley Utilities Water Company, Beaver Dam Water Company, Inc.; Rancho Del Conejo Community Water Co-op, Inc.; Vail Water Company; Montezuma Rimrock; and Ray Water Company. In addition to rate cases, an application by AT&T Communications of the Mountain States, Inc. and AT&T Corp. for approval of a proposed corporate reorganization and merger will be processed, and we expect to handle many financing applications, including Arizona Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., and Montezuma Rimrock Water Company, LLC.

During FY 2011-12, Docket Control continued to scan documents and final decisions from prior years into eDocket, which will enhance the ability of users to research and relevant documents.

The following public hearings were held during FY 2011-12:

Type of Hearing	Number
Orders to Show Cause and Complaints.....	32
Certificates of Convenience and Necessity	14
Rate Cases.....	46
Securities Division.....	41
Miscellaneous (oral arguments, motions to compel, etc.)	31
CC&N Extensions	2
Transfers/Sales	12
Railroad/Pipeline Safety Group.....	9
Public Comments	30
Rules (new and amended)	6
Arbitration	1
Generic Investigations	5
Deletions.....	1
Tariff.....	0
Line Extensions/Agreements.....	3
Financing	22
Adjudications	12
Line Siting.....	1
Mergers	0
Amend Decisions	11
SUB TOTAL	279
Pre-hearing Conferences	19
TOTAL	298

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 2011-12, the Docket Control Center processed the following documents:

Responses to Inquiries/ Research/Assistance.....	5,500
Filings docketed & distributed	9,100
Opinion and Orders/Administrative Closures processed and mailed	803
New applications input.....	515
Open Meeting items processed.....	1,140
Certifications.....	48
Transcripts logged & microfilmed	
Utilities.....	275
Securities	51
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, innovation, 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 staff and the public. The Support Section also provides operational functionality and support of the Commission’s audio-visual broadcast center.

- Systems -- Personnel who focus on integrating enterprise network hardware (servers, switches, etc) and software (email, operating systems, data security, etc.).

During Fiscal Year 2012, the IT Division continued to enhance and expand the Commission’s technology capabilities, as outlined in the following high-level overview.

Development and testing of the new STARPLUS system continued. The STARPLUS project is a collaborative effort with the Corporations Division and to replace the 18+ year-old current incorporating application (STARPAS) and website.

Facilitated the design and build-out of a new audio-visual broadcast center. When complete, anticipated during FY13, the Commission will have significantly increased audio-visual and broadcast capabilities.

Developed and selectively implemented a new inventory database and application. This system will enhance and streamline the Commission’s physical inventory processes.

Relocated and consolidated a considerable portion of the IT Division to one physical location.

Designed and developed a kiosk application with supporting hardware to support and help streamline Commission open meetings.

Implemented a unified communications infrastructure that can provide messaging, voice and video calling and web conferencing capability.

Upgraded infrastructure and implemented technology to connect with Arizona Capitol Television (ACTV) to achieve bi-directional broadcast capability.

Upgraded and expanded the Commission's computer-based learning/training system.

Facilitated the effort to redesign and upgrade the Commission's azinvestor.com web site.

Other significant IT Division achievements of Fiscal Year 2012:

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

- Continued to expand a business intelligence infrastructure that supports increased reporting options to agency staff and the public.

- Completed numerous infrastructure, security, e-mail and server upgrades.

- Continuing to refine business policies and procedures to map to industry standards which enable more effective and streamlined resource allocation.

- The IT Division is continually and aggressively focused on improvements to existing applications and processes, security, enhanced reliability of network and storage systems, increased automated network monitoring, and enhanced security practices and technology.

Legal Division

Janice Alward
Chief Counsel

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

The Legal Division represents the Commission in all matters relating to public utility regulation and in other areas not associated with the Securities Division. Securities-related cases are handled by the Securities Division. Matters handled by the Legal Division fall into five general categories:

- 1) Commission dockets;
- 2) federal regulatory dockets;
- 3) litigation;
- 4) other administrative matters; and
- 5) special projects.

Commission Dockets

Utility companies throughout the state apply to the Commission for approval before undertaking certain activities, such as the provision of service to the public, the modification of service territories, or the implementation of rate increases.

The Commission is authorized to exercise ongoing review over the operations of public service corporations and to act when necessary to further the public interest. Legal Division representation in these matters is varied and includes representing the Utilities Division and

advising the Commissioners on legal issues. The Legal Division routinely appears on behalf of Commission Staff in a variety of administrative proceedings, such as CC&N cases, rate cases, financing cases, and enforcement matters.

Over the past year, the Legal Division has represented Staff in a number of rate cases for some of the State's largest water providers, including Arizona-American Water Company and Arizona Water Company. The Legal Division also represented Staff in the Arizona-American (Anthem/Agua Fria) deconsolidation case.

The Legal Division represented Staff in a number of rate cases for energy companies, such as Arizona Public Service Company, Tucson Electric Power Company, UNS Electric, Mohave Electric Cooperative, Semstream Arizona Propane, and Southwest Gas Corporation. The Legal Division has also assisted Staff in processing annual rate adjustments, such as purchased fuel or power mechanisms, energy efficiency plans, or renewable energy plans. The Legal Division represented Staff in an application filed by Mohave Electric Cooperative requesting approval of a renewable energy pilot program. And finally, the Legal Division represented Staff in Century Link's application to classify its services as competitive and to deregulate certain services as non-essential.

Occasionally, proceedings to enforce Commission rules and regulations are initiated by Staff. Over the past year, the Legal Division represented Staff in actions involving Cerbat Water Company, Truxton Canyon Water Company, Hacienda Acres Water Company, Bellemont Water Company, Tacna Water

Company, and Valle Verde Water Company.

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

Federal Dockets

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

During FY 2011-12, 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 Legal Division also represented the Commission in Federal Communication Commission (FCC) dockets.

Key federal proceedings included:

- Participation in two El Paso Natural Gas Co. rate cases before FERC;
- Participation in FERC rulemaking on Transmission Cost Allocation rules;
- Participation in FCC rulemaking dockets involving the Federal Universal Service Fund and Intercarrier Compensation.

The Commission has also been actively involved in proceedings at FERC related to the supply and interstate transmission of natural gas. Natural gas is a primary source of fuel for power plants. The

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

Litigation

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

The cases filed or pending during FY 2011-12 include the following:

- an appeal in the Arizona Court of Appeals by BNSF Railway Co. challenging a Commission decision;
- Proceedings on remand in the Maricopa County Superior Court in *Southern Cal. Edison v. Ariz. Corp. Comm'n*;
- *Grimmelman v. Pulte Homes*, an appeal before the Ninth Circuit Court of Appeals, in which the Division filed an amicus brief;
- *McLeodUSA v. Ariz. Corp. Comm'n*, an appeal in the Ninth Circuit Court of Appeals;
- *Qwest v. Ariz. Corp. Comm'n*, an appeal in the Arizona District Court.

The Legal Division participated in continued civil litigation in the Arizona Federal District Court and the Ninth Circuit Court of Appeals involving arbitrations of interconnection agreements

between various telecommunications providers. Also, before the Tenth Circuit Court of Appeals, the Legal Division is representing the Commission in a challenge to the FCC's reformed universal service and intercarrier compensation rules.

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

Administrative Matters

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

The Corporations Division has the responsibility for processing corporate filings, such as Articles of Incorporation, Certificates of Disclosure, and Annual Reports. These items must be submitted to the Commission by every corporation doing business within the State of Arizona. The Legal Division advises the Corporation Division on these matters.

Special Projects

The Legal Division participates in the enactment and revision of all Commission rules, including rules for the Corporations

Division, the Utilities Division, and the Safety Division. It has also represented the Commission in litigation that has occurred following rulemakings. Rulemaking proceedings that occurred in FY 2011-2012 include revisions to the pipeline safety rules and revisions to rate application requirements for electric and gas cooperatives.

The Legal Division assisted Staff with several generic dockets involving telecommunications, including review of the Arizona Universal Service Fund and Intrastate Access Charges. The Division has also assisted Staff with the implementation of the recent FCC comprehensive USF/ICC Reform Order.

The Legal Division has assisted with a variety of generic proceedings related to the energy industry, such as the biennial transmission assessment, the annual summer and winter preparedness workshops, and inquiries related to smart meters.

The major cases before the Commission usually include an advisory staff assigned to separately advise Commissioners and Commissioners' staff without violating the *ex parte* communications rule. Thus, in many instances, in addition to the need for legal staff as counsel for Utilities Division staff, additional Legal Division personnel are assigned to advise the Commissioners.

Safety Division

Pipeline Safety Section

Robert Miller
Supervisor

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

The Pipeline Safety Section enforces pipeline safety standards and operating practices applicable to the transportation of gas and hazardous liquids by pipeline and the operation of liquefied natural gas facilities. Inspections are conducted on all interstate gas transmission and interstate hazardous liquid pipeline facilities.

Inspection and operation audits are conducted on all intrastate natural gas transmission/distribution pipelines, intrastate hazardous liquid pipelines, intrastate liquefied natural gas facilities and master meter natural gas operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the utility company meter. The Pipeline Safety Section also enforces the Arizona Underground Facilities Law, otherwise known as the “Blue Stake” Law.

As a result of these responsibilities, the Pipeline Safety Section monitors the activities of 6 interstate natural gas transmission pipelines, 1 interstate hazardous liquid pipeline, 15 major intrastate gas pipeline operations, 2 intrastate liquefied natural gas facility, 8 intrastate gas transmission pipelines, 3 intrastate hazardous liquid pipelines and 961 master meter natural gas operations.

During FY 2011-12, the Pipeline Safety Section inspected 14 major intrastate natural gas and Liquefied Petroleum Gas (LPG) distribution pipeline operators, 6 intrastate gas transmission pipeline operators, 2 intrastate hazardous liquid pipeline operators, 2 intrastate liquefied natural gas (LNG) operator, 4 interstate gas transmission operators, and 1 interstate hazardous liquid pipeline operator. In addition to the comprehensive inspections above; Pipeline Safety Section staff also conducted 3 construction inspections, 75

specialized inspections, 21 follow-up inspections, and 12 incident investigations of major intrastate operators.

The Pipeline Safety Group conducted 615 comprehensive Master Meter (MM) inspections, 81 specialized MM inspections, 286 follow-up MM inspections and 178 construction inspections of master meter natural gas distribution systems.

Also during FY 2011-12, the Pipeline Safety Section investigated 122 reported violations of the Underground Facilities Law, issued 71 notices of violations and collected \$9,500 in fines.

Staff also received 1067 notices of incidents from pipeline operators and the pipeline operators shut off gas service to 57 master meter gas systems requiring repair.

During FY 2011-12, the Pipeline Safety Section provided 17 training workshops for 274 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 35

Blue Stake seminars held state-wide with attendance of nearly 1795.

Railroad Safety Section

Brian Lehman
Supervisor

The Railroad Safety Section enforces the Federal Safety Standards for track, signal, motive power and equipment, railroad operating practices, and the shipment of hazardous materials 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 2011-12, the Section inspected 1,167 miles of track, 1,983 freight cars, 167 locomotives, 178 crossings, and 7 industrial track facilities. It also made 2,464 inspections of manufacturers that ship and receives hazardous materials by rail. Also, 8 incidents were investigated that involved tank cars carrying hazardous materials. Additionally, 416 signal and train control devices were inspected. The Section investigated 14 train derailments, along with 19 grade crossing accidents and 33 complaints received from other governmental agencies, railroad employees or the public. In total, the Section recommended 12 violations for prosecution of federal regulations.

Commission staff, in conjunction with the Federal Highway Administration (FHWA) and the Arizona Department of

Transportation (ADOT), conducts an annual review of certain public rail-highway crossings throughout the state and prepares a list of crossings to be considered for improvement using federal funds. From the list, the Commission publishes an array of 8-10 crossings each year. During FY 2011-12, the Commission approved 10 crossing projects for improvement using federal funds. The array is then submitted to the cities, towns, and/or counties to make applications for funding through ADOT to the FHWA.

Another responsibility of the Section is reviewing applications for modification to existing at-grade crossings or the creation of new at-grade crossings.

Staff review and analyze the crossing applications and make recommendations to the Commissioners regarding safety requirements at the crossings. During FY 2011-12, the Commission approved 8 crossing improvement projects.

The Section is also very active in the Arizona Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing and trespasser safety. The Commission's award-winning video, "Operation Lifesaver," is widely used in the Arizona High School Driver Education and Driver Survival Programs as well as other driver safety programs around the country. During FY 2011-12, Railroad Safety Staff gave 6 Operation Lifesaver presentations to four school bus operators within their communities and two elementary schools within the State.

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 has two major sections:

- 1) Registration and Compliance
- 2) Enforcement

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 2011-12 the Section processed 2,075 dealer and 175,753 salesman registrations.

In addition, the Section processed 6,007 investment adviser representative licenses and 2,099 state investment adviser licenses and federal investment adviser notice filings.

The Section conducted 64 field examinations of dealers and investment advisers.

The Section processed 24,170 applications for securities registration and notice filings, 1,347 filings for various exemptions from registration, and 1,482 name change requests during FY 2011-12.

Division duty officers responded to approximately 2,798 inquiries from the public regarding the substance of the Securities and Investment Management

Acts and 1,527 inquiries regarding dealers, salesmen, investment advisers, and investment adviser representatives.

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 2011-12, the Division initiated 32 investigations and had a total of 81 cases under investigation at year-end.

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

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

During FY 2011-12, the Securities Division filed 20 administrative proceedings involving 59 respondents,

and assisted state and federal law enforcement agencies in obtaining 15 indictments.

During the same period, the Corporation Commission issued 29 Cease and Desist Orders against 60 respondents based on Securities Division actions. The Commission also ordered 38 respondents to pay \$18,393,020 in restitution and 43 respondents to pay \$1,081,106 in administrative penalties. The Commission revoked or suspended seven licenses or registrations.

Criminal prosecutions assisted by Securities Division staff resulted in 14 criminal convictions during this fiscal year with defendants being ordered to pay \$7,773,984 in restitution.

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

Investor Education

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

In FY 2011-12, the Securities Division conducted 45 public education programs. This outreach included both communities inside Maricopa County and other communities across the state.

In addition to group presentations, the Securities Division distributes its investor

educational message and materials through the Internet, 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 victim to unscrupulous financial professionals.

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

Utilities Division

Steven M. Olea
Director

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

The Utilities Division monitors the operations of approximately 708 companies providing utility service within the State of Arizona. Article XV of the Arizona Constitution defines “public service corporations” as “those furnishing gas, oil, or electricity for light, fuel or power; water for irrigation, fire protection, or other public purposes; or those transmitting messages or furnishing telegraph or telephone service.” The Commission’s regulatory responsibilities are established in the Arizona Constitution (Article XV) and the Arizona Revised Statutes (§40-201, et seq.), and further defined in the Arizona Administrative Code (Title 14, Chapter 2).

One of the Utilities Division’s major responsibilities is rate review in conjunction with the determination of rates that are just, fair and reasonable to the utility’s customers and company stakeholders which will result in a reasonable return on fair value for public service corporations.

The Division reviews utility company financial records and recommends to the Commission appropriate rates and revenue requirements. With the exception of small public service corporations, these

requests for rate changes must be determined in an evidentiary hearing. Regardless of the size of the public service corporation, all rate changes require approval of the Commission in an open meeting.

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

As a result of the telecommunications industry evolving from monopolies to a competitive industry, the Utilities Division has the added responsibility of providing leadership and support in the development of competitive marketplaces. The Division works with the Commissioners and all affected stakeholders to develop equitable competitive markets that will benefit all consumers of telecommunications services.

Throughout FY 2011-12, the Division devoted significant resources to the following major efforts:

- Southwest Gas Rate Case
- Arizona-American Water Company Rate Case
- Arizona Water Company Rate Case
- UNS Gas Rate Case
- Navopache Electric Rate Case
- Cerbat Water Company – Order to Show Cause
- APS Energy Efficiency

- APS Rate Case
- Truxton Canyon Water Company – Order to Show Cause
- Review and preparation of recommendations on certain energy efficiency programs proposed by utilities
- Analysis and preparation of Staff's testimony in multiple other rate cases and Certificates of Convenience and Necessity
- Participation in several transmission line siting cases
- Investigation of Preferred Carrier Agreements in the telecommunications arena
- Continued supervision of interim managers for several water companies; and
- Ongoing efforts to monitor service quality and reliability among regulated utilities

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

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

The Division oversees the following numbers of utilities:

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

*The Commission oversees more than 400 individual water and sewer systems.

Multiple systems can be operated by the same utility company.

Financial & Regulatory Analysis

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

During FY 2011-12, the Section analyzed numerous large rate-related cases, as well as a number of small water company rate cases. Staff's responsibilities in analyzing a rate application include conducting a regulatory audit and developing recommendations that address various accounting issues, reasonableness of expenses, cost of capital, overall revenue requirement, rate design and, ultimately, proposed rates.

Telecom & Energy Section

The Telecom and Energy Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities and rural electric and gas cooperatives. The section also analyzes and implements telecommunications policies adopted by the Commission. The staff uses a variety of computer models, quantitative techniques and qualitative methods in its utility evaluations and research. Recommendations are presented to the Commissioners through

staff reports, sworn testimony, memos and recommended orders.

The section is also responsible for analyzing and preparing Staff recommendations for the majority of electric tariff filings, special contracts, natural gas tariff filings, renewable energy programs, demand-side management programs, rulemakings, telecommunications tariff filings, proposed tariff revisions and competitive telecommunication interconnection agreements. The section also processes applications for CC&N's for competitive telecommunications firms.

Engineering Section

The Engineering Section conducts technical reviews of all Commission-regulated utilities (except gas, which is done by the Pipeline Safety Group) to assure compliance with accepted service, safety, maintenance, performance and regulatory standards. This Section monitors and conducts on-site investigations of regulated water, wastewater (sewer), irrigation, telecommunications and electric companies. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage and consumer inquiries.

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

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

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

The electrical engineers monitor the operation and maintenance of all generating and transmission resources within Arizona. This includes the nation's largest nuclear plant, the Palo Verde Nuclear Generating Station, located approximately 50 miles west of Phoenix. The Engineers also support Commission representatives who serve on the Arizona Power Plant and Transmission Line Siting Committee. Engineers assist in evaluating issues related to reliability of newly-proposed generating stations and transmission lines.

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

In the area of telecommunications, the Telecommunications Engineers review various telecommunications applications and utility requests for numbering resources (waiver requests). 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 2011-12:

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 2011-12, the Consumer Services Section assisted with or held 13 public comment/town hall meetings.

Arbitration/Mediation: When the public utility and the consumer are not able to agree on the resolution of the consumer's complaint, a representative from the Utilities Division will conduct an independent arbitration/mediation to resolve the complaint. During FY 2011-12, the Consumer Services Section conducted 17 arbitration/mediations.

Meter Testing: The Consumer Services Section tests water meters when the accuracy of the meter reading is questioned. During FY 2011-12, the Consumer Services Section tested 44 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 2011-12.

Opinions: During a pending rate case, consumers are able to provide feedback to the Commission which becomes docketed with the case. During FY 2011-12, the Consumer Services Section handled 6,297 opinions.

Complaints & Inquiries: The following table lists the total complaints and inquiries handled by the Consumer Services Section in FY 2011-12 by utility type and complaint or inquiry type:

Communication Companies	850
Sewer Companies	58
Water Companies	1,056
Electric Companies	1,553
Gas Companies	1,217
TOTAL.....	4,734

Billing issues.....	1,050
Deposit issues.....	125
New service issues.....	95
Service issues.....	165
Quality of service.....	548
Disconnect/termination.....	266
Repair issues.....	40
Rate case items.....	87
Rates/tariffs.....	113
Other issues.....	4,146
Misc/Non-jurisdictional.....	652
TOTAL.....	7,387

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 2011-12, the Compliance Section reported the following compliance actions:

- 558 annual reports were mailed to utilities and monitored for filing.
- 410 new decisions were entered and tracked for compliance
- 130 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 2011-12 include:

Staff Reports.....	115
Tariffs Administratively Approved..	208
Testimony.....	37
Open Meeting Items.....	106

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 Securities Revolving 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, Hearing and Legal Divisions 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
	2010-2011	2011-2012	2012-2013
Corporation Filing Fees*	7,506,020	7,349,600	7,000,000
Security and Broker Fees*	17,447,228	16,710,800	15,800,000
Miscellaneous Service Charges**	71,106	46,500	50,000
Fines & Forfeitures*	1,978,406	1,601,200	1,500,000
Utility Assessments	15,963,317	13,655,900	13,500,000
Sec Regulatory & Enforcement Fund	4,798,798	4,388,700	4,625,900
Sec Investment Management Act Fund	2,248,002	2,374,500	2,250,000
Public Access Fund	7,516,421	7,090,000	7,000,000
Federal Grant***	<u>1,064,215</u>	<u>1,300,900</u>	<u>1,000,000</u>
TOTAL	58,593,513	54,518,100	52,725,900

*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>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Administration & Hearing Divisions	4,675,483	4,971,490	5,500,000
Corporations Division	4,157,170	4,000,257	3,900,000
Securities Division	4,447,050	4,446,402	4,350,000
Railroad Safety Section	613,779	538,148	600,000
Pipeline Safety Section	1,787,216	1,673,196	1,650,000
Utilities Division	5,668,033	4,915,504	5,400,000
Legal Division	1,830,106	1,780,981	1,850,000
Information Technology	<u>2,249,176</u>	<u>2,602,498</u>	<u>2,616,000</u>
TOTAL	25,428,013	24,928,476	25,866,000

Table 3

Expenditures by Fund Source

Expenditures by Fund Source	Actual	Actual	Estimated
	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
General Fund	620,013	598,737	589,100
Arts Trust Fund	52,665	51,543	50,200
Sec. Regulatory & Enforcement Fund	4,387,515	4,381,474	4,625,900
Sec. Investment Management Act Fund	694,018	710,450	684,300
Utility Regulation Revolving Fund	13,153,304	12,745,559	13,152,700
Public Access Fund	5,645,252	5,612,076	6,013,800
Pipeline Safety Revolving Fund	---	---	---
Federal Funds**	<u>875,246</u>	<u>828,637</u>	<u>750,000</u>
TOTAL	27,428,013	24,928,476	25,866,000

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

Corporation Commissioners Since Statehood

A.W. Cole	Democrat	1912-1917
W. P. Geary	Democrat	1912-1915
F. A. Jones	Democrat	1912-1919
Amos A. Betts	Democrat	1917-1933 1938-1945
David F. Johnson	Democrat	1919-1924
Loren Vaughn	Democrat	1921-1932
W. D. Claypool	Democrat	1925-1930
Charles R. Howe	Democrat	1931-1936
Wilson T. Wright	Democrat	1933-1953
John Cumnard	Democrat	1933-1934
W. M. Cox	Democrat	1935-1940
William Peterson	Democrat	1941-1946
William Eden	Democrat	1944-1947
William T. Brooks	Democrat	1947-1958
Yale McFate	Democrat	1947-1948
Mit Simms	Democrat	1949-1958
Timothy D. Parkman	Republican	1954
John H. Barry	Democrat	1955-1956
E. T. "Eddie" Williams, Jr.	Democrat	1957-1968
George F. Senner, Jr.	Democrat	1959-1962
A. P. "Jack" Buzard	Democrat	1959-1962
John P. Clark	Republican	1963-1964
Milton J. Husky	Democrat	1965-1970
Dick Herbert	Democrat	1965-1971
Charles Garland	Republican	1969-1974
Russell Williams	Republican	1970-1974
Al Faron	Republican	1970-1976
Ernest Garfield	Republican	1973-1978
Bud Tims	Republican	1975-1983
Jim Weeks	Democrat	1977-1982
Stanley Akers	Republican	1979-1980
John Ahearn	Democrat	1980-1981
Diane McCarthy	Republican	1981-1984
Richard Kimball	Democrat	1983-1985
Junius Hoffman	Democrat	1984
Marianne Jennings	Republican	1984
Sharon Megdal	Democrat	1985-1986
Renz Jennings	Democrat	1985-1999

Marcia Weeks	Democrat	1985-1996
Dale Morgan	Republican	1987-1995
Carl J. Kunasek	Republican	1995-2001
Jim Irvin	Republican	1997-2003
Tony West	Republican	1999
William “Bill” Mundell	Republican	1999-2008
Marc Spitzer	Republican	2001-2006
Mike Gleason	Republican	2003-2008
Jeff Hatch-Miller	Republican	2003-2008
Kristin Mayes	Republican	2003-present
Barry Wong	Republican	2006
Gary Pierce	Republican	2007-present
Sandra Kennedy	Democrat	2009-present
Paul Newman	Democrat	2009-present
Bob Stump	Republican	2009-present
Brenda Burns	Republican	2011-present

Southern Arizona Office

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

Tucson Personnel assigned to the Utilities Division provided Consumer Services staffing, prepared staff input to rate cases, conducted railroad safety training and inspections as well as fulfilled pipeline safety requirements. The Administrative Law Judges (ALJs) in Tucson conduct hearings on matters of interest to residents located in Southern Arizona. In addition to holding hearings in Tucson, the ALJ often travels to and conducts hearings in Southern Arizona communities affected by matters pending before the Commission.

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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