

ARIZONA CORPORATION COMMISSION

**73rd ANNUAL REPORT
1984 - 1985**

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Phoenix, Arizona 85007**

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ARIZONA CORPORATION COMMISSION

73rd Annual Report

July 1, 1984 - June 30, 1985



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402 West Congress Street
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FOREWORD

The Arizona Corporation Commission was created by Article XV of the Arizona Constitution in 1912. It is comprised of three Commissioners elected by the people of Arizona, each for a six-year term, with one Commissioner elected every two years. In the event a vacancy occurs, an interim Commissioner is appointed by the Governor to serve until the next general election.

This Annual Report addresses the transactions and proceedings of the Arizona Corporation Commission during the period July 1, 1984 - June 30, 1985. As required by Arizona Revised Statutes, this report was transmitted to the Governor of the State of Arizona. Additionally, the Corporation Commissioners, recognizing the broad interest in and support of Commission activities, have provided copies to the following:

Executive Officers

The Secretary of State

The State Treasurer

The Attorney General

Arizona Legislature

President of the Senate

Speaker of the House of Representatives

All members of the Senate

All members of the House

Additional copies can be acquired by contacting:

Office of the Executive Secretary
1200 West Washington
Phoenix, Arizona 85007

RENZ D. JENNINGS
CHAIRMAN

MARCIA WEEKS
COMMISSIONER

SHARON B. MEGDAL
COMMISSIONER



JAMES MATTHEWS
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

November 29, 1985

The Honorable Bruce Babbitt
Governor of the State of Arizona
1700 W. Washington, West Wing, 9th Fl.
Phoenix, AZ 85007

Dear Governor Babbitt:

The Arizona Corporation Commission respectfully submits its 23rd Annual Report covering the fiscal year ending June 30, 1985.

As indicated in the report, this fiscal year provided many opportunities and challenges to the Commissioners and Staff. It saw the election of two new Commissioners and the departure of two Commissioners appointed to fill vacancies the previous year.

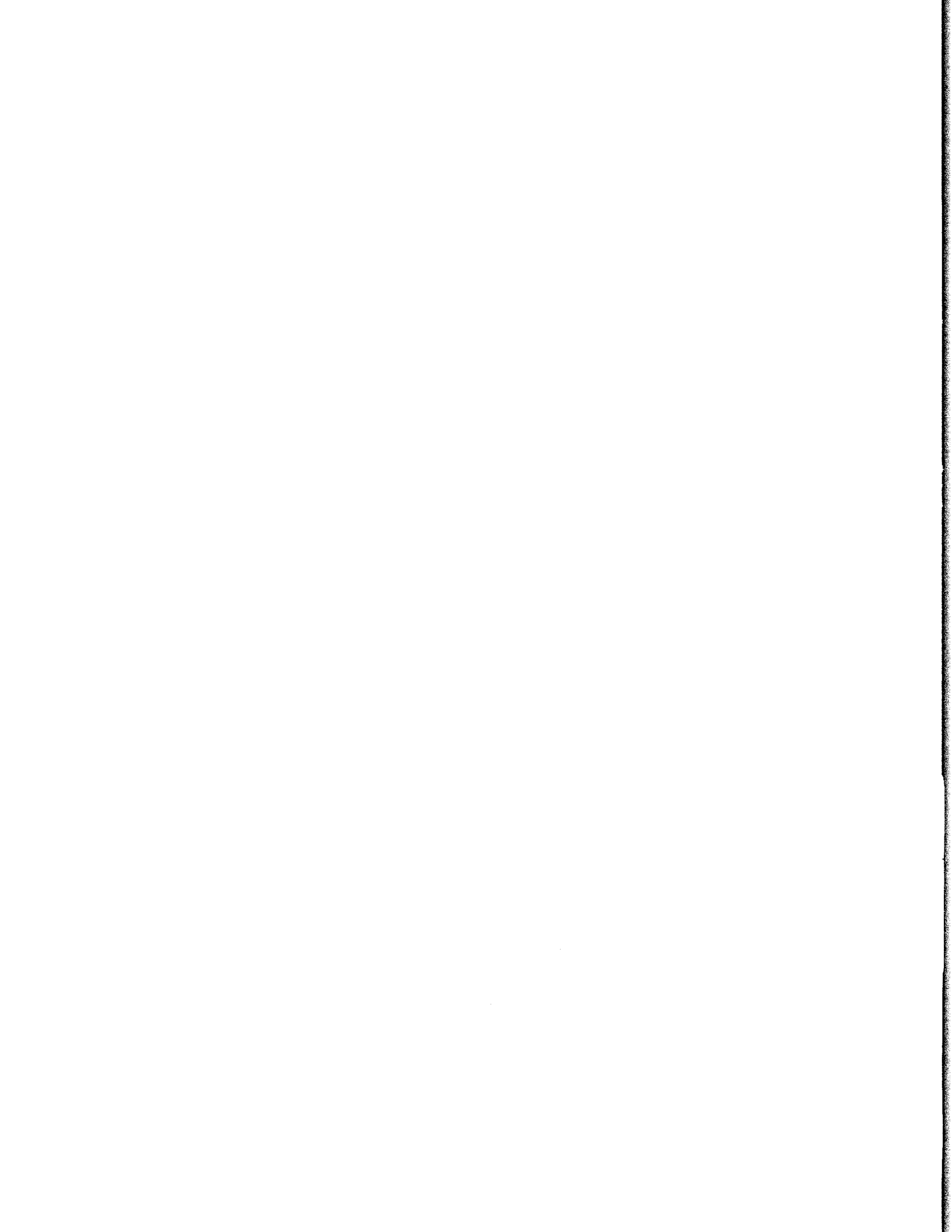
The Commission believes it met the challenges and capitalized on the opportunities to better serve the electorate through knowledgeable and fair determinations. I am hopeful the report will be pertinent and provide you and other recipients an adequate review of our transactions and proceedings during FY 1984-85.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "RDJ", with a large, stylized flourish extending from the end.

Renz D. Jennings
Chairman

RDJ/jev



ARIZONA CORPORATION COMMISSION

SEVENTY-THIRD ANNUAL REPORT

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COMMISSIONERS



RENZ D. JENNINGS

Commissioner

Renz Jennings, an Arizona native, was elected to the Commission for the term beginning January 1985. Mr. Jennings has a J.D. from the ASU College of Law and served three terms in the Arizona House of Representatives. His term with the Commission expires January 1987.



MARCIA WEEKS

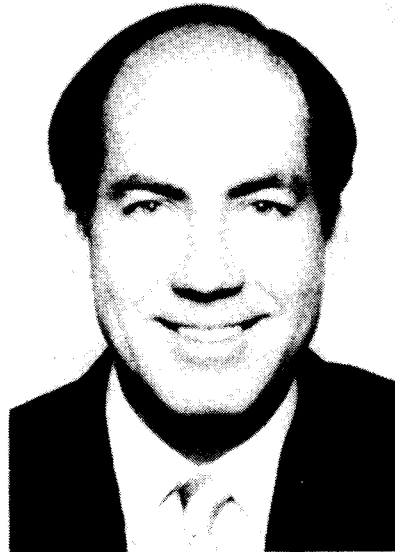
Commissioner

Marcia Weeks is a resident of Phoenix and was elected to the Commission for a six-year term beginning January 1985. She is a graduate of the University of Arizona. Commissioner Weeks previously served three terms in the Arizona State Senate where she was Chairman of the Senate Finance Committee.

RICHARD KIMBALL

Chairman

Chairman Kimball was born in Tucson in 1946. He was elected from Phoenix to the State Senate in 1978 and again in 1980. In January 1984, he was elected Chairman of the Corporation Commission. His term began in January of 1983.





JUNIUS HOFFMAN

Commissioner

Junius Hoffman, a Professor of Law with the University of Arizona, was appointed Commissioner by Governor Bruce Babbitt in July of 1983 to fill a vacancy left by the death of Commissioner Bud Tims. He left the Corporation Commission in January of 1985.

MARIANNE M. JENNINGS

Commissioner

Marianne M. Jennings is from Mesa and was appointed by Governor Bruce Babbitt to serve an 11-month term. She is a Professor of Business Law at Arizona State University and a member of the Arizona Bar. She left the Commission in January of 1985.



EXECUTIVE SECRETARY



JAMES MATTHEWS

James Matthews was appointed Executive Secretary in April of 1985. Prior to that, he served as Deputy Director of the Arizona Health Care Cost Containment System and spent four years as Legislative Liaison for Governor Bruce Babbitt. Mr. Matthews holds a B.A. degree from the University of New Mexico and an M.P.A. from Arizona State University.

Jim succeeded Ms. Lorrie Drobny and Mr. George Anderson, who also served as Executive Secretary during portions of Fiscal Year 1984-85.

The Executive Secretary is the Chief Executive Officer for the Arizona Corporation Commission. He is responsible for daily operations in all Divisions and the development and implementation of Commission policies.

The Executive Secretary coordinates activities for each Division, provides overall agency management and planning, coordinates public and media information and serves as inter-governmental and legislative liaison for the Corporation Commission.

ADMINISTRATION DIVISION

Philip R. Moulton, Director
Thomas L. Mumaw, Chief Hearing Officer

The Administration Division plans, coordinates and directs the fiscal and administrative services necessary to support all Divisions of the Commission. These activities include accounting, payroll, purchasing, personnel and budgeting. In addition to these administrative functions performed by the Business Office, the Division has responsibility for providing data automation support for processing all official records, preparation of the Open Meeting agendas, and monitoring legislative activities. The Hearing "Division" is placed organizationally within this Division; however, activities are under the Chief Hearing Officer who has the same authority as other Division Directors.

DATA PROCESSING

The Corporation Commission has an in-house Honeywell minicomputer and also is a major user of the Department of Administration's Data Center computer. Major applications of the minicomputer include agency-wide word processing and a case management system, which tracks and reports status of all cases filed with the Commission.

During FY 1984-85, the Commission continued to improve its data processing capabilities and make optimum use of the Department of Administration's Data Center computer services. The upgrade of the Commission's Honeywell computer to the DPS 6/94 configuration with 4 megabytes of memory greatly enhanced the staff's ability to provide fast, accurate and responsive service to the public as well as efficient scheduling and recording of hearing activities before the Commission.

DOCKET CONTROL

The Docket Control section maintains the official records for the Utilities and Securities Divisions of the Corporation Commission. In this regard, Docket Control's functions are similar to a court clerk's office. Because this section is responsible for all official dockets, another of its main functions is to assist the public and staff in researching the files and transcripts of cases.

Major activities accomplished during FY 1984-85 include the following:

Filings Docketed and Distributed	2,637
Research Activities/Assisting Public	3,755
Dockets Microfilmed	2,834
Daily Updates of Pending Actions	3,029

HEARING "DIVISION"

Under the supervision of the Chief Hearing Officer, hearings are designed to elicit information and physical evidence on which the Commissioners base their ultimate decisions. Hearing Officers take testimony, make rulings from the bench, and determine points of law as they apply to any given proceeding. They also draft recommended orders for the Commissioners' consideration and approval and issue various procedural orders on their own authority, subject to Commission review. The Hearing Division has the additional responsibility of reviewing all utilities-related orders presented to the Commission whether or not such orders originated from the Hearing Division itself. A summary of the 215 hearings held during FY 1984-85 is shown below. These matters encompassed some 204 days of evidentiary hearings. Activities also included the submission of 229 Opinions and Orders for consideration at Open Meetings.

CORPORATIONS DIVISION

Joan E. Drake, Director

The Corporations Division is organized for those purposes outlined in Section 8, Article 14 of the Constitution. It is also charged with the responsibility of administering the General Corporation Code (A.R.S. Sections 10-002 through 10-966; and 10-1002 through 10-1099).

Any organization which operates as a corporation in the State of Arizona is required to file its Articles of Incorporation and an Annual Report with the Commission. Any significant changes to Articles in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed in this Division. All filings are public record and available for inspection. Copies of documents may be secured for a minimal fee.

The Corporations Division has limited investigatory powers and no regulatory authority. However, the Articles of Incorporation of an Arizona corporation may be revoked if certain statutory requirements are not met. Likewise, the authority of a foreign corporation to do business in Arizona may be revoked for statutory reasons.

As of June 30, 1985, there were 84,079 corporations operating in the State of Arizona; 71,929 domestic and 12,150 foreign.

The Corporations Division is comprised of three Sections, with each Section designed to perform specific functions. The Division also provides staffing for service of southern Arizona corporations in the Tucson Office of the Corporation Commission.

INCORPORATING SECTION

The Incorporating Section approves and processes all filings directly related to Articles of Incorporation. The Section determines availability of corporate names; processes applications filed by foreign corporations seeking the authority to transact business in Arizona; and, certifies copies of any and all corporate documents on file for introduction into court and for private business transactions.

The Section works in conjunction with the Departments of Real Estate, Insurance, Banking and the Registrar of Contractors to ensure consistency between agencies relative to filing requirements. It also works closely with the Office of the Secretary of State. The laws pertaining to corporate names are similar to those governing trade names, which are administered by the Secretary of State. No corporate name can be approved if the Commission determines it to be the same or deceptively similar to an existing corporate or trade name. By law, both corporate and trade names must be checked before the Commission approves the use of a corporate name. As of June 30, 1985, there were approximately 130,000 corporate and trade names registered in Arizona.

The number of documents processed by the Incorporating Section during FY 1984-85 were as follows:

Domestic Articles of Incorporation	12,439
Foreign Applications for Authority	2,061
Domestic and Foreign Amendments	2,861
Certificates of Good Standing	7,077
Certification Orders	4,746
Domestic and Foreign Mergers	568

ANNUAL REPORTS SECTION

The Annual Reports Section is responsible for processing all annual reports filed by corporations transacting business in Arizona. The reports are checked to ensure all statutory requirements have been met.

This Section is further responsible for recording statutory agent changes and any changes to general corporate information which occur during the year.

The Commission is authorized by A.R.S. 10-095 and 10-1052 to revoke a domestic corporation's Articles of Incorporation or a foreign corporation's authority to transact business in Arizona if specific filing requirements are not met. Sixty days prior to revocation, the Commission must issue a notice of delinquency to the corporation. All delinquencies and revocations are handled by the Annual Reports Section.

In FY 1984-85, this Section processed the following:

Annual Reports	74,262
Delinquency Notices	27,839
Revocations	7,641

RECORDS SECTION

The Records Section is responsible for maintaining all corporation documents filed with the commission. All corporate files are public record. Microfilmed corporate files may be viewed by the public at the Customer Counter. Hard copies of documents can be purchased at a minimal cost per page.

The Section also provides a telephone information service for public inquiries regarding corporate status and general information. The recorded number of incoming telephone calls during FY 1984-85 exceeded 600 daily.

The Corporation Commission acts as agent for Arizona corporations whenever a corporation 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.

In FY 1984-85, the Records Section filmed over 560,000 documents, accepted service of process on behalf of approximately 275 corporations and sold over 127,000 copies of records on file.

TUCSON CUSTOMER SERVICE

Residents of Southern Arizona are offered the convenience of filing their original corporate documents and obtaining corporate information directly from the Corporations Division in Tucson. The Tucson Office, with the exception of maintaining records, performs essentially the same functions as the Phoenix Office. All documents filed in Tucson are sent to the Phoenix Records Section for retention.

SECURITIES DIVISION

Matthew J. Zale, Director

The Securities Division of the Arizona Corporation Commission is responsible for the administration of the Securities Act of Arizona (the Act) and the Rules and Regulations promulgated thereunder. The Division is comprised of two sections, Regulation and Enforcement.

REGULATION SECTION

The Regulation Section is involved in the review of the applications for exemption from the registration provisions of the Act; in registering salesmen, dealers, and securities under the Act; and in drafting amendments to the Act and to Rules and Regulations. The Section participates in earlier stages of the capital formation process through its response to "No-Action" and interpretive letters and prefiling conferences with industry and issuers.

During FY 1984-85, the Regulation Section of the Division processed 17,632 salesmen's applications and 1,687 transfers of such salesmen between dealers. The Section also processed 905 dealer registrations. During the year, there were 2,741 securities offerings registered, while 175 issuers qualified for exemptions from the registration requirements of the Act.

This Division continues to make its staff available to issuers through prefiling conferences in which a potential issuer and its counsel meet with members of staff to discuss applications to register securities. The time a filing spends in the review process is significantly reduced by this program.

Individuals and entities seeking to comply with Arizona's requirements often seek the Division's position with regard to various provisions of the Act. The positions are conveyed either through an interpretive letter or a "No-Action" letter. A "No-Action" letter is an effort on the part of the issuer or counsel to receive comfort that, should a particular transaction take place in a particular manner, the Division will not recommend instituting enforcement action based upon violations of the registration provisions of the Act. During FY 1984-85, 174 "No-Action" requests were responded to by this Division. Such requests were normally issued within ten working days.

Several members of the Regulation Section were active participants in national committees of the North American Securities Administrators Association, Inc. The primary purpose of these committees is to ensure uniformity among the states, to facilitate compliance with the various securities laws by applicants, and to develop amendments to selected guidelines and procedures reflecting a constantly changing marketplace and industry.

ENFORCEMENT SECTION

The Division's Enforcement Section maintains an active program in order to ensure integrity in the marketplace and preserve investment capital for the capital formation process, rather than permitting it to be lost to a swindle or a deceptive practice.

The Arizona Corporation Commission is granted the authority by A.R.S. Section 44-2032 to (1) issue an Order to Cease and Desist; (2) apply to Superior Court of Maricopa County for an injunction; (3) transmit evidence to the Attorney General who may petition the Superior Court of Maricopa County for the appointment of a conservator or receiver; (4) transmit evidence to the Attorney General who may directly institute, or cause to be instituted, criminal proceedings. The Arizona Corporation Commission is also authorized to deny, suspend, or revoke a dealer or salesman's registration. This latter remedy, and item (1) above, are Commission administrative processes.

During FY 1984-85, the Division initiated 51 investigations and had a total of 110 cases under investigation. It instituted 36 administrative Proceedings and transmitted evidence to the Attorney General which resulted in six civil cases involving 17 defendants and four criminal cases involving six defendants.

The Division makes substantial commitments to its cases once litigation is commenced. Its investigators and certified public accountants become essential factors in the litigation in terms of marshaling witnesses and providing expert testimony. Because of their familiarity with the facts in the case they have investigated, the Division's attorneys are appointed Special Assistant Attorneys General to assist during litigation. A total of 119 administrative subpoenas were issued in connection with investigation of suspected failures to comply with the Act. These subpoenas resulted in making 71 examinations under oath of the recipients thereof.

ADMINISTRATIVE MATTERS

During June 1985, various amendments to the Rules and Regulations of the Corporation Commission pertaining to securities were approved. The amendments were the result of a comprehensive review of the rules. Many of the changes were non-substantive changes to recognize current accounting and industry terminology. In addition, substantive changes were made to Rules 101 and 102, by expanding the dollar amount available to issuers selling securities pursuant to these exemptions. Rule 104 was amended to require the registration of salesmen in the sale of certain exempt transactions and to require dealer and salesman registration for any issuer making a series of private offerings.

A statutory amendment proposed by the Commission was passed by the Legislature and signed into law by the Governor during FY 1984-85. The amendment provides for one uniform annual registration fee of \$250.00 for all dealers.

UTILITIES DIVISION

Wayne E. Ruhter, Director

The Utilities Division monitors the operations of 500 utilities providing service within the State of Arizona. The Division reviews the utilities' finances and recommends to the Commission revenue requirements and rates and charges to be collected.

These regulatory responsibilities and authorities are fully defined in Article XV of the Arizona Constitution and Section 40-201, et seq., Arizona Revised Statutes; they are further defined in the Arizona Official Compilation of Administrative Rules and Regulations, Title 14, Chapter 2. Article XV of the Arizona Constitution defines "Public Service Corporations" (public utilities) 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 preceding Arizona law may be distinguished as comprising enabling powers and directive powers.

Enabling Powers Utility companies must secure Commission approval before undertaking certain actions. The Commission is authorized to issue or to deny certificates of public convenience and necessity prior to the construction of a utility facility; to approve or disapprove the issuance of securities and long-term indebtedness; and to approve or disapprove the sale of utility assets and transfers of certificates.

Directive Powers The Commission is authorized to exercise continual review over the operations of the utilities and to intervene when necessary in the Public interest. This authority includes control over rates, accounting practices, evaluation and service standards. Books and records of utilities are audited for ratemaking purposes. Utilities' plants are inspected for proper construction and design, and also for ratemaking purposes as related to reconstruction costs. Engineers are further assigned to electric safety, and compliance specialists ensure that utilities obey Arizona law.

The Utilities Division consists of three groups which fulfill the staff's responsibilities: Economics and Rates, Engineering, and Consumer Services. They oversee the following number of utilities:

Investor-owned electric utilities	7
REA electric cooperatives	11
Gas utilities	12
Telecommunications	34
Water utility companies	391
Sewer companies	39
Irrigation companies	6
TOTAL	500

ECONOMICS AND RATES GROUP

The Economics and Rates group advises the Commission on matters pertaining to the regulation of the private, investor-owned utilities under its jurisdiction. The section reviews all applications filed with the Commission relating to rates and charges, financing, and transfers and sales of utility ownership.

The audit section performs in-depth audits to ensure the financial accuracy of applications as well as conformance with rulemaking procedures and Commission policy. Their findings form the basis for Staff's Reports that summarize the test year data used in hearings for determining rate changes by the Commission.

The section monitors Purchased Power and Fuel Adjusters which grant regulated utilities direct pass throughs to ratepayers of increased or decreased costs of fuel. Based on this section's investigations and recommendations, the Commission has ordered several million dollars of refunds to consumers.

With continued expansion of personnel and computer capabilities, this group will be developing greater expertise in such critical areas as Cost of Service analysis and Cost of Capital methodologies. The group will also be addressing the changing financial needs of the utility industry to better protect and promote consumer interests.

ENGINEERING GROUP

The Engineering group is responsible for the technical review of all regulated utilities to assure compliance with accepted service, material, maintenance and performance standards. As a part of its responsibilities, this group monitors the construction, maintenance and operation of the largest nuclear power generating station in the United States. The Palo Verde Nuclear Generating Station's Unit 1 will achieve commercial operation sometime during the last quarter of 1985. When Unit 3 reaches its anticipated commercial operation in 1987, the costs of this facility will represent the largest single item ever entered into an Arizona utility's rate base.

The Engineering group also monitors the 391 privately-owned water companies and 39 sewer companies to assure adequate service. Plant facilities are inventoried when reconstruction cost studies used in rate proceedings are done. In addition, the Engineering group assists the legal staff in performing engineering studies and in preparing evidence and cross-examination of the engineering aspects of rate cases and safety-related matters. All incidents, accidents and injuries resulting from the operation of regulated utilities are investigated by this group.

Participation in the four-state study of the construction, operation and maintenance of the Palo Verde Nuclear Generating Station, increased surveillance of electrical transmission lines, membership on the Power Plant and Transmission Line Siting Committee and increasing numbers of engineering studies of all types of utility facilities have Produced an increased work load. To accomplish these increased tasks, additional engineering personnel have been added to the staff.

CONSUMER SERVICES GROUP

This group of the Utilities Division is staffed in both the Phoenix and Tucson offices.

Consumer Services investigates complaints regarding the operation, service, and billings of public service corporations in compliance with Statutes, Orders of the Commission, approved tariffs, and Commission Rules and Regulations. After a problem has been identified by a complainant, staff obtains facts from the utility and determines if corrective action has been, or needs to be, taken. When necessary, staff initiates the action needed to correct a valid complaint. If staff cannot accomplish a resolution satisfactory to the consumer, the consumer then has the right to file a formal complaint with the Commission.

Consumers have access to the services of these staff members via the regular telephone business lines or through two incoming WATS lines. These WATS lines have been installed solely for the benefit of consumers who must make a long distance call to obtain staff's assistance.

The following tables list the number of inquiries handled by the Consumer Services group during FY 1984-85

	1984-85
Water companies	2,657
Electric companies	2,509
Gas companies	2,260
Communications companies	4,077
Sewer companies	124
TOTAL	11,627
Service inquiries	1,195
New Service inquiries	708
Billing inquiries	2,153
Deposit inquiries	339
Other inquiries	7,232
TOTAL	11,627

April 22 through April 28, 1985, was designated National Consumers' Week by the United States Office of Consumer Affairs. Consumer Services participated in the planning of this first annual event. It was held at Christown Shopping Center, where 39 organizations staffed booths which highlighted the consumer's right to fair treatment in the marketplace. Representatives from the Consumer Services group, Railroad Safety, Pipeline Safety Section, Securities Division and Commissioners all participated in this highly successful program.

SAFETY SECTION

The Safety Section was incorporated into the Utilities Division to allow for a more effective use of personnel, funds and emergency equipment. The Safety Section is comprised of Railroad Safety and Pipeline Safety. Both of these units respond to hazardous situations involving gas, liquid hazardous material and other hazardous materials in the transportation system.

Railroad Safety: The Railroad Safety Section is responsible for enforcing railroad track, freight car, locomotive and operating practices and safety standards established by the Federal Railroad Administration. This section also investigates railroad accidents throughout the state and works with industry to increase hazardous material transportation safety. Railroad crossings, industry tracks and new railroad construction are reviewed by staff of this section for Commission approval.

In addition to the foregoing, this section works with federal, state and local agencies on a number of projects ranging from upgrading safety devices at railroad crossings to participation in the National Operation Lifesaver Program of the National Safety Council.

The Corporation Commission, through its Railroad Safety Section staff, also administers the state's share of monies dedicated to improving railroad crossing safety devices. Since the inception of this program, \$700,000 in state funds have been spent or encumbered to improve safety warning devices on 142 railroad crossings in the state.

Rail-highway grade crossing improvement statistics for FY 1984-85 are as follows:

Encumbered funds for crossing projects since inception of program through FY 1984-85	\$700,000.00
Monies expended to upgrade crossings in FY 1984-85	\$79,450.00
Commission Orders issued	22

Other statistics concerning the FY 1984-85 Rail-Highway Safety Program are as follows:

Miles of track inspected	7,268
Number of freight cars inspected	1,658
Miles of industrial spur tracks inspected	100
Grade crossings inspected	118
Railroad hazardous material incidents/spills investigated	12
Grade crossings improved	36
New railroad crossings installed	4

Pipeline Safety Section: The Pipeline Safety Section provides state control over safety standards and practices applicable to the transportation of gas and hazardous liquids by pipelines. Facilities of gas utility operators are included as well as master meter operators such as mobile home parks, apartments, schools and other gas distribution systems beyond the utility's meter.

This section monitors the activities of the 12 major operators (utilities), consisting of 31 inspection units and is in the process of identifying and inspecting the facilities of approximately 3,000 master meter operators.

During FY 1984-85, reports of 102 gas-related incidents were received and the more serious ones were investigated. Additionally, 62 operators were inspected, 667 pipe replacement inspections and 287 construction inspections were performed. Also, during FY 1984-85, 23 workshops and seminars were conducted at various locations in the state to promote safety and to train operators to enable them to comply with state and federal regulations.

LIBRARY

The Division maintains a library containing research materials which include legal, technical, and reference publications as well as federal and state documents with special emphasis on utility-related issues.

OPEN MEETINGS

The Commission conducts Open Meetings on a regularly scheduled basis for the purpose of decision making. During FY 1984-85, the Utilities Division submitted to the Commission the following items for deliberation:

	<u>Elec</u>	<u>Gas</u>	<u>Water</u>	<u>Sewer</u>	<u>Tele</u>	<u>TOTAL</u>
Rate Matters	9	3	86	5	3	106
Transfers		1	13	2		16
Fuel Adjustments/Purchased Power Certificates	6	4	2			12
Orders to Show Cause		1	52		12	65
Financing Matters	4		10	1	2	17
Formal Complaints	2	1	15	6	1	25
Tariff Filings	12	6	7	1	7	33
Refunds	9	13	17	2	84	125
Others	10				1	11
TOTAL	39	8	55	4	9	115
	91	37	257	21	119	525

RATE CASES

A major portion of the Utilities Division's responsibility is rate review and determination of a reasonable return on fair value for public service companies. A.R.S. 40-250 requires that all public service corporations obtain Commission approval before establishing or changing any rate, fare, toll, rental, charge, classification, contract, practice rule or regulation. With the exception of small public service corporations with gross operating revenues derived from intrastate operations of less than \$250,000, all such authority granted must be determined in a public hearing before the Commission. Preparation for a major rate case begins from the time of the utility's initial filing and takes approximately four to six months before the hearing takes place. The Commission has had several major proceedings this year which are individually described in Appendix B relating to electric, telephone and water issues.

REVENUES

The Division collects an annual assessment from the utilities, as established by A.R.S. Section 40-401. The total revenues collected by the assessments and their disbursements during FY 1984-85 are as follows:

	<u>UTILITIES DIVISION*</u>	<u>RUCO**</u>	<u>GENERAL FUND</u>	<u>TOTAL</u>
Electric	2,202,251.19	383,892.42	-0-	2,586,143.61
Telephone	973,700.05	191,169.04	-0-	1,164,869.09
Gas	533,643.64	121,683.47	-0-	655,327.11
Water	52,487.81	19,631.85	230.42***	72,350.08
Sewer	9,218.51	4,035.80	-0-	13,254.31
Communications/Mobile Radio	5,884.79	-0-	-0-	5,884.79
TOTAL	3,777,185.99	720,412.58	230.42	4,497,828.99

NOTE: Assessment rates were computed as follows

- * 0.1464 percent of intrastate total gross operating revenue
- ** 0.0685 percent of intrastate residential gross operating revenue
- *** \$230.42 consists of a \$200.00 fine payment received by the Commission and \$30.42 paid on a delinquent utilities assessment, assessed at 0.10 percent of intrastate total gross operating revenue.

LEGAL DIVISION

Neal J. Beets, Chief Counsel

Effective July 1, 1983, the Legal Division was created to provide legal assistance, advice and representation to the Commissioners and each division of the Commission except the Securities Division.

Matters handled by the Legal Division fall into four general categories: Commission hearings, court cases, administrative matters and special projects.

During FY 1984-85, the major portion of the Division's resources were consumed in Commission hearings. The Division helped prepare and present cases on 215 matters. Certain rate cases, such as those involving the Arizona Public Service Company and Mountain Bell, where tens of millions of dollars in potential rate increases are at stake, took several months to prepare and present.

When a party to a Commission hearing is dissatisfied with the Commission's final decision, that party may appeal through the court system. During FY 1984-85, the Legal Division defended the Commission in 18 court cases. Because of the complexity of the issues, and the number of courts through which appeals may be pursued, these court cases will probably require years of fairly constant attention from the Legal Division. During this time, the Legal Division will consult with the Commissioners in executive session to continue to provide legal advice.

Various administrative matters also require the involvement of the Legal Division. During FY 1984-85, the Division drafted and approved numerous contracts, drafted proposed rules and legislation, advised as to the legal ramifications of personnel matters, and answered countless informal questions about the legal meaning of constitutional and statutory provisions of law pertaining to utility regulation or to the Commission's important responsibilities in incorporating matters.

Finally, FY 1984-85 was noteworthy for the many special projects requiring the input of the Commission's Legal Division. Along with three other state utility commissions, this Commission has undertaken an audit of the multi-billion dollar Palo Verde Nuclear Generating Station. Because of its significant scope and the difficulty of the legal issues involved, this project alone has required almost the full-time attention of a senior attorney from the Legal Division. Other special projects include Commission efforts to represent state interests in the regulatory proceedings of the Federal Energy Regulation Commission and the Federal Communications Commission, and Commission efforts to streamline the regulation of small water companies, telephone companies, and utility cooperatives. Each one of these special projects has involved a significant investment of the time and other resources of the Legal Division.

SOUTHERN ARIZONA OFFICE

As noted in several areas of this Annual Report, the Corporation Commission maintains a Southern Arizona Office, located at 402 West Congress Street in Tucson. This office provides many of the same services as the offices in Phoenix. Sections of the Corporations and Utilities Division as well as a Hearing Officer from the Administration and Hearing Division are located here.

During FY 1984-85, the Corporations Section processed over 9,000 filings and collected more than \$310,000 in fees.

The Utilities Division provides a consumer service specialist and a railroad safety specialist in the Tucson office and an authorization for a pipeline safety investigator was approved during FY 1984-85. More than 5,000 utilities-related inquiries were received and resolved during the year.

The Hearing Officer heard 45 cases during FY 1984-85 and provided numerous liaison duties during the year.

Numerous favorable comments have been forwarded to the Corporation Commission relating to the convenience of service provided by the Southern Arizona Office.

APPENDIX A

FINANCIAL DATA SECTION

Financial Resources Through the budget process, the Arizona Corporation Commission has continued to identify fiscal resource requirements to meet its constitutional and statutory responsibilities. The Commission is funded through three sources: the State General Fund, the Utility Regulatory Revolving Fund, and Federal Grants. The first two require legislative appropriation. The Administration/Hearing, Securities and Corporations Divisions as well as the Railroad Safety section of the Utilities Division are funded from the General Fund. All other requirements of the Utilities and Legal Divisions are funded through the Utility Regulatory Revolving Fund, which derives its money from assessments on Public Service Corporations. The Federal Funds are obtained as a reimbursement to the Pipeline Safety Section within the Utilities Division for accomplishment of certain federal responsibilities.

Historically, the Commission has generated more revenue from securities and broker registrations, corporation filing fees and miscellaneous service charges than its General Fund requirements. All revenue of this type flows to the State General Fund and is used to defray state government operating costs. The assessment on Public Service Corporations is based on the appropriation approved by the Arizona Legislature and is computed and assessed by the Utilities Division.

The following tables portray revenue and expense data. For comparative purposes, Fiscal Data from FY 1983-84, FY 1984-85 (Report Year) and FY 1985-86 is included:

**TABLE 1
REVENUE BY SOURCE**

	Actual 1983-84	Actual 1984-85	Estimate 1985-86
Corporation Filing Fees *	2,910,700	3,428,200	3,600,000
Security & Broker Fees *	1,937,300	2,447,200	2,478,800
Misc. Service Charges *	38,100	46,000	19,000
Utility Assessments **	2,792,700	3,812,700	4,920,000
Federal Grant	30,500	91,400	140,200
TOTALS	\$7,709,300	\$9,825,500	\$11,158,000

* Deposited in the State General Fund

** Deposited in Revolving Fund for Utilities and Legal Divisions

TABLE 2
EXPENDITURES BY DIVISION

	Actual 1983-84	Actual 1984-85	Estimate 1985-86
Administration/Hearing Div.	1,287,500	1,544,100	2,043,200
Corporations Division	674,600	783,200	878,600
Securities Division	1,080,600	1,291,000	1,427,400
Railroad Safety Section	260,600	326,500	511,000
Utilities Division	1,885,000	2,439,900	3,602,100
Legal Division	388,300	463,400	685,400
TOTALS	\$5,576,600	\$6,848,100	\$9,147,700

TABLE 3
EXPENDITURES BY FUND SOURCE

	Actual 1983-84	Actual 1984-85	Estimate 1985-86
General Fund	3,303,300	3,944,800	4,860,200
Util. Reg. Revolving Fund	2,242,800	2,811,900	4,147,300
Federal Grant	30,500	91,400	140,200
TOTALS	\$5,576,600	\$6,848,100	\$9,147,700

APPENDIX B MAJOR CASES

1. ARIZONA PUBLIC SERVICE COMPANY (APS)

- A. On August 21, 1984, APS filed new gas rate schedules in support of a gas revenue increase, not to exceed \$7 million, based upon certain gas plant additions to the APS gas system between December 1, 1983 and July 31, 1984. This filing was in accordance with Paragraph IV(B) of a Stipulation and Agreement, dated April 18, 1984, and signed by APS, Southwest Gas Corporation, Residential Utility Consumer Office, and the ACC's Utilities Division Staff on the sale of APS' gas system to Southwest Gas Corporation. On September 26, 1984, the Commission approved the gas rate schedules with an effective date of October 1, 1984.
- B. On July 5, 1983, APS filed an application for a hearing to determine the earnings of the company for permanent ratemaking purposes. Unlike previous rate proceedings involving APS, the Rate Case Procedural Order provided for a unitary hearing addressing both revenue requirements and rate design. During the course of the hearings, APS' application underwent several changes. The most significant was the separation of the requested increase in gas rates from the electric portion of the application. After presentation of a Stipulated Agreement negotiated by APS and RUCO, the Commission approved an increase in gas rates in May 1984 and September 1984. APS' original request of electric rates proposing a five-step increase was pared down to two steps at APS' request. The Commission initially dismissed the second step in April 1984, but reversed itself in May 1984 by scheduling it for a separate hearing, which began on October 9, 1984. The Commission approved a rate increase on Phase I on October 11, 1984, which also confirmed the interim rates granted on January 30, 1984.
- C. On October 9, 1984, the Commission held evidentiary hearings on behalf on Phase II of the APS' application of July 5, 1983. During the ten days of hearing, the Commission considered a comprehensive package of incentive plans submitted by APS and critiqued by ACC Staff, RUCO and other intervenors. The incentive package adopted included issues such as the precise definition of "Commercial Operation" of Palo Verde Unit #1 ("PV-I"); allowance for Funds Used During Construction Offset to CWIP Included in Rate Bases; AFUDC Penalty for PV-I Delays; Palo Verde Cost Cap; and Base Generating Facilities Operating Incentives. On November 28, 1984, the Commission issued an Order approving an amended incentive package which will provide a powerful inducement for the timely and cost efficient completion of Palo Verde as well as proper rewards and penalties for efficient operation of the base load generating units, and directed APS to file a revised schedule of rates and charges for electric service in accordance with the discussion, findings and conclusions of that proceeding.
- D. **PALO VERDE AUDIT**
On December 4, 1984, the Commission signed an Order initiating an investigation into the Palo Verde Nuclear Generating Station Construction Costs. The Commission agreed to join the states of California, New Mexico and Texas in conducting a Construction Audit to be funded by each participant in proportion to its respective share of Palo Verde. In that Order, APS was required to pay 29.1% of all costs incurred in conducting a Construction Audit of Palo Verde, less any amount especially appropriated by the legislature for such purpose. Salt River Project also later agreed to participate in the funding. On January 31, 1985, after reviewing proposals submitted by various firms for a Project Manager to coordinate the investigation and audit, the Commission issued an Order authorizing the Chairman to execute the contract between the ACC, Texas PUC and Ernst and Whinney. Ernst and Whinney has been conducting a thorough audit and is expected to submit a preliminary report in late 1985.

2. TRICO ELECTRIC COOPERATIVE, INC. (TRICO)

On July 20, 1984, Trico filed an application for a hearing to determine the fair value of its properties for ratemaking purposes. Trico is an Arizona nonprofit membership corporation, certificated to serve electricity to customers in rural Pima, Pinal and Santa Cruz Counties.

Trico's last rate review was conducted in 1976. Trico's application for a rate increase was precipitated primarily by a curtailment of the operations of Anamax which accounted for 53% of Trico's revenues and 59% of the total kW demand on Trico. The Commission approved a slightly lower than requested increase on July 19, 1985.

3. TELECOMMUNICATIONS

- A. In June, August and September 1984, the Commission held hearings on its own motion in a general investigation into competition for Intrastate Interexchange Services. Such competition has been made possible by the enactment of H.B. 2147 in 1984 and the break-up of the Bell system in the Modified Final Judgment. H.B. 2147 specifically permits the granting of multiple certificates with regard to telephone and other telecommunications corporations. On December 24, 1984, the Commission issued an Order allowing all pending applications for Certificates to provide interLATA service as well as all other applications for toll authority to proceed to hearing. Subsequently, Certificates were issued to AT&T, MCI, GTE Sprint, and Allnet for authority to provide intrastate, interLATA services.
- B. On October 24, 1984, MCI Air Signal, Inc. and A-1 Metro filed a Joint Application requesting an Order from the Commission declaring that one-way radio paging would no longer be regulated pursuant to Article XV of the Arizona Constitution. The Joint Application was filed under provisions of the recently enacted A.R.S. Section 40-281 (E). After a public hearing, the Commission issued a Decision on April 25, 1985, which deregulated the provision of one-way radio paging, as of June 1985.
- C. **MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (MOUNTAIN BELL)**
On October 30, 1979, Mountain Bell filed with the Commission a proposed revised local exchange tariff sheet reclassifying the Tucson Exchange. The Commission, at that time, issued an Order denying permission to Mountain Bell to reclassify the Tucson Exchange on the grounds that such a reclassification constituted a rate increase and could only be done in a full rate review proceeding. After a long legal proceeding, the Court of Appeals upheld the Commission's decision in an Order issued August 3, 1983. The Commission then proceeded to search for and identify other rate group classification changes in other exchanges which may have been implemented by Mountain Bell in the interim. On February 25, 1985, a hearing was held to investigate rate group classification changes for the Tucson Exchange, Flagstaff Exchange, Payson Exchange, Marana Exchange, Cottonwood Exchange and the Sedona Exchange. On June 17, 1985, the Commission issued an Order which specified a refund amount and interest due to customers in those exchanges during the period of time the reclassifications were implemented and the next Mountain Bell rate case. The refund plan was further reviewed by Commission Staff, RUCO and Mountain Bell in a separate proceeding.
- D. **MOUNTAIN BELL RATE CASE**
On October 26, 1984, Mountain Bell filed an application for a rate increase. The Commission held a series of public comment meetings in various parts of the state to take comments from the general public on this request. The hearings began on July 1, 1985 and proceeded for 39 days, becoming the second longest hearing ever held by the Commission. This post divestiture case was undoubtedly the most complicated Mountain Bell rate case ever before the Commission.

4. SMALL WATER COMPANY REGULATION

In April 1985, the Commission held a series of meetings on reform of small water company regulation. On April 19, 1985, the Director of the Utilities Division presented a proposed plan to the Commission outlining a program to implement a water company information management system with monitoring reports; quarterly newsletter to all water companies; simplified filing requirements and an expedited rate review process. The expedited rate review process was implemented in May 1985, on a trial basis, and formally set in place with the introduction of a new Rule in July 1985. The first edition of the quarterly newsletter was mailed to all water companies in July 1985. Commission Staff is continuing to implement a full program in this area.