



**A** **rizona**  
**C** **orporation**  
**C** **ommission**

**76th ANNUAL REPORT**

**1987-88**

# ARIZONA CORPORATION COMMISSION

Marcia Weeks, Chairman

Renz D. Jennings, Commissioner

Dale H. Morgan, Commissioner

James Matthews, Executive Secretary

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Philip R. Moulton  
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Beth Ann Burns  
Hearing

Joan E. Adams-Moore  
Corporations

Matthew Zale  
Securities

Gary M. Yaquinto  
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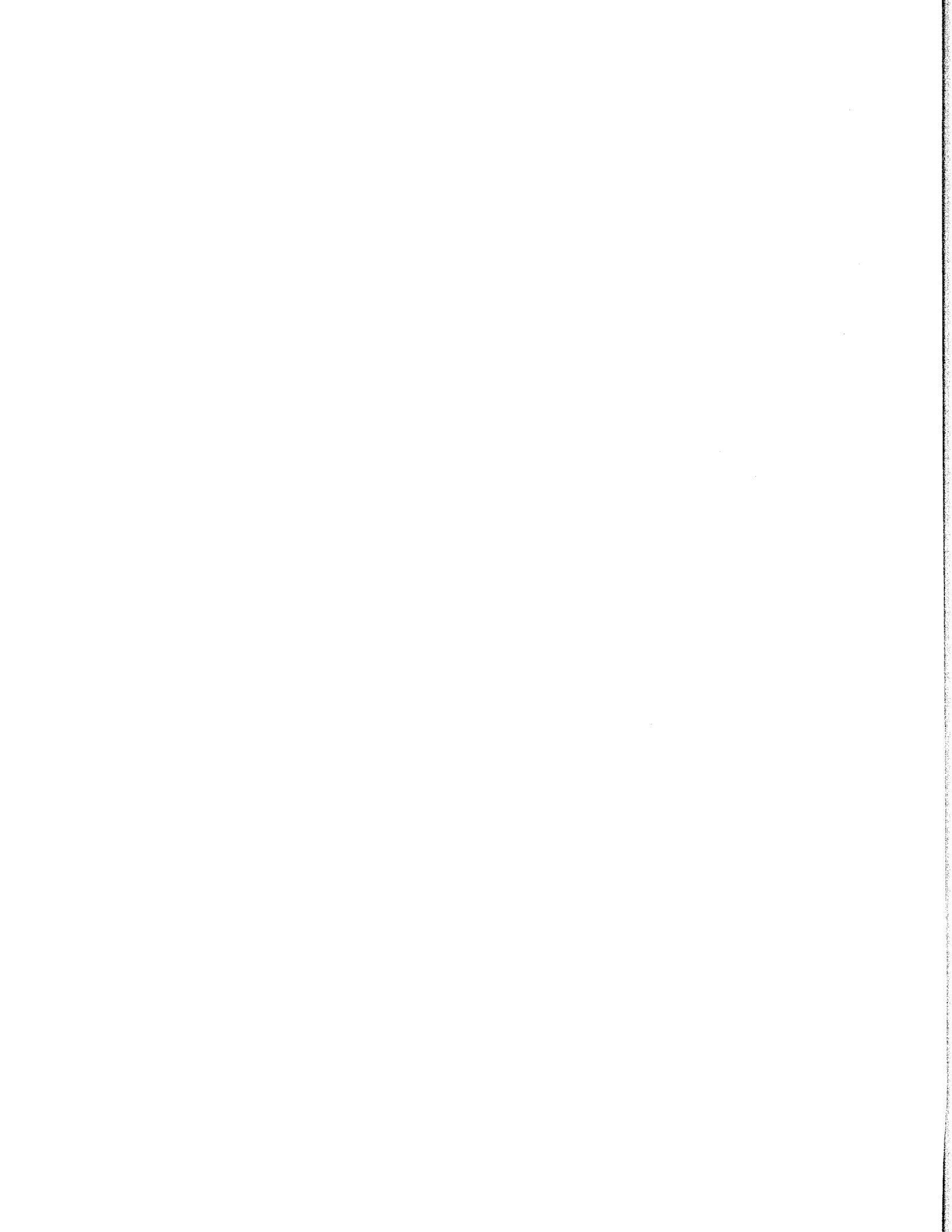
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**ARIZONA CORPORATION COMMISSION**  
**76th Annual Report**

July 1, 1987 - June 30, 1988



## 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, 1987 - June 30, 1988. 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 the 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

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Phoenix, Arizona 85007

**ARIZONA CORPORATION COMMISSION**  
**SEVENTY-SIXTH ANNUAL REPORT**

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**TABLE OF CONTENTS**

FOREWORD .....	i
THE COMMISSIONERS .....	1
THE EXECUTIVE SECRETARY .....	2
ADMINISTRATION DIVISION .....	3
HEARING DIVISION .....	4
CORPORATIONS DIVISION .....	5
SECURITIES DIVISION .....	7
UTILITIES DIVISION .....	9
LEGAL DIVISION .....	16
SOUTHERN ARIZONA OFFICE .....	18

**APPENDIX**

A. FINANCIAL DATA SECTION .....	19
B. MAJOR RATE CASES .....	21

## COMMISSIONERS



**MARCIA WEEKS**  
Chairman

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. She was elected Chairman in January 1987.



**RENZ D. JENNINGS**  
Commissioner

Renz Jennings, an Arizona native, was elected to the Commission for the term beginning January 1985. Commissioner Jennings has a J.D. from the ASU College of Law and served three terms in the Arizona House of Representatives prior to his election to the Commission. He has been elected to a second term to run through January 1993.



**DALE H. MORGAN**  
Commissioner

Dale Morgan was elected to the Commission in November 1986 for the term beginning January 1987. He is a graduate of the University of Tulsa and the Sparton School of Aeronautics in Tulsa, Oklahoma. Commissioner Morgan is a retired Air Force Officer with service in World War II, Korea and Vietnam. He is also a former member of the Commission staff. His current term will expire in January 1989.

## EXECUTIVE SECRETARY



### JAMES MATTHEWS

James Matthews has served as Executive Secretary since April 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.

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.

## ROSTER OF CORPORATION COMMISSIONERS SINCE STATEHOOD

A.W. Cole	Democrat	1912-1917	A.P. "Jack" Buzard	Democrat	1959-1962
W.P. Geary	Democrat	1912-1915	John P. Clark	Republican	1963-1964
F.A. Jones	Democrat	1912-1919	Milton J. Husky	Democrat	1965-1970
Amos A. Betts	Democrat	1917-1933/ 1938-1945	Dick Herbert	Democrat	1965-1971
David F. Johnson	Democrat	1919-1924	Charles Garland	Republican	1969-1974
Loren Vaughn	Democrat	1921-1932	Russell Williams	Republican	1970-1974
W.D. Claypool	Democrat	1925-1930	Al Faron	Republican	1970-1976
Charles R. Howe	Democrat	1931-1936	Ernest Garfield	Republican	1973-1978
Wilson T. Wright	Democrat	1933-1953	Bud Tims	Republican	1975-1983
John Cumard	Democrat	1933-1934	Jim Weeks	Democrat	1977-1982
W.M. Cox	Democrat	1935-1940	Stanley Akers	Republican	1979-1980
William Peterson	Democrat	1941-1946	Diane McCarthy	Republican	1981-1984
William Eden	Democrat	1944-1947	John Ahearn	Democrat	1980-1981
William T. Brooks	Democrat	1947-1958	Richard Kimball	Democrat	1983-1985
Yale McFate	Democrat	1947-1948	Junius Hoffman	Democrat	1984
Mit Simms	Democrat	1949-1958	Marianne Jennings	Republican	1984
Timothy D. Parkman	Republican	1954	Renz Jennings	Democrat	1985-present
John H. Barry	Democrat	1955-1956	Marcia Weeks	Democrat	1985-present
E.T. "Eddie" Williams, Jr.	Democrat	1957-1968	Sharon Medgal	Democrat	1985-1986
George F. Senner, Jr.	Democrat	1959-1962	Dale Morgan	Republican	1987-present





## ADMINISTRATION DIVISION

Philip R. Moulton, Director

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 Division Director also serves as the Deputy Executive Secretary and performs the duties of the Executive Secretary during the incumbent's temporary absences.

### DATA PROCESSING

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

During FY 1987-88, the Data Section staff participated in many operational improvements. The Securities Division's receipting function of registration fees was automated and integrated with the Securities Registration data base. The system was also enhanced to track the Clearing Fund fees and provide reports for the Business Office to issue warrants and process transfers of fees to the General Fund when a Securities Registration becomes effective. Additional workstations were installed in the Securities Division and a new feature provided to enable the printing of screen images.

A Personnel/Payroll system was designed and implemented for the Business Office. It tracks all permanent and temporary employees by position, pay period and division utilizing the Dbase III Plus software on an IBM PC. Various detailed management reports were created to provide information by division, pay period, fund source, affirmative action code and classification.

The planning of the conversion of the Incorporating System to the Data Center's new NAS mainframe was completed. The new system will be menu-driven and provide enhanced functions in the usage of on-line screens. A new cross-referencing capability was also built into the data base.

Numerous enhancements of the software and installation of additional workstations to the Honeywell minicomputer were also completed during the fiscal year.

### 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 1987-88 include the following:

Filings Docketed and Distributed	2,809
Research Activities/Assisting Public	4,412
Case Management System Maintenance Actions	4,518
Daily Updates of Pending Action	4,177



## HEARING DIVISION

Beth Ann Burns, Chief Hearing Officer

State law confers upon the Commission the authority to hold public hearings on matters involving the regulation of public service corporations, the sale of securities, and the registration of non-municipal corporations. The Hearing Division is responsible for conducting the hearings, analyzing the evidence, and drafting recommended decisions for the Commissioners' consideration and approval.

Under the direction of the presiding Hearing Officer, the proceedings are conducted on a formal basis through the taking of direct 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 Hearing Officer from the bench.

During FY 1987-88, the five member Hearing Division conducted 166 public hearings, encompassing a total of 191 days. A summary of these hearings is shown below.

### PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1987-88

<u>Type of Hearing</u>	<u>No. Of Hearings</u>
Rate Cases	21
Transfers/Sales	7
Certificates of Convenience and Necessity	38
Orders to Show Cause and Complaints	19
Financing	8
Fuel Adjustment Cases	1
Pre-hearing Conferences	11
Public Comments	18
Rules (new and amended)	0
Adjudications	3
Deletions	0
Revocations	0
Generic Hearings	0
Securities Division	18
Corporations Division	0
Railroad/Safety Division	3
Miscellaneous (oral arguments, motions to compel, etc.)	19
<b>TOTAL</b>	<b>166</b>

Based upon the record evidence presented at the public hearings, or the filings made in non-hearing matters, the presiding Hearing Officer 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 1987-88, the Hearing Division prepared a total of 243 recommended orders, 155 for cases involving a hearing and 88 for non-hearing matters.

Throughout the pendency of cases before the Commission, the presiding Hearing Officer may issue procedural orders to govern the preparation and conduct of the proceeding including: discovery, intervention, the hearing date, filing dates, public notice, and motions. During FY 1987-88, the Hearing Division issued 218 such orders.



## CORPORATIONS DIVISION

Joan E. Adams-Moore, Director

The Corporations Division is organized for those purposes outlined in Article XIV, Section 8 of the Constitution. It is also charged with the responsibility for 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.

As of June 30, 1988, there were 102,325 corporations transacting business in the State of Arizona; 87,242 domestic and 15,083 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. There are approximately 200,000 corporate and trade names registered in Arizona.

The number of documents processed by the Incorporating Section during FY 1987-88 were as follows:

Domestic Articles of Incorporation	12,120
Foreign Applications for Authority	2,709
Domestic and Foreign Amendments	3,284
Certificates of Good Standing	9,682
Certification of Orders	4,924
Domestic and Foreign Mergers	729

## 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 1987-88, this Section processed the following:

Annual Reports	87,587
Delinquency Notices	31,314
Revocations	13,780

## 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 1987-88 exceeded 800 daily. An incoming WATS line is available to provide toll-free service to Arizona residents living outside the metropolitan Phoenix and Tucson areas.

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 1987-88, the Records Section filmed over 525,000 documents; accepted service of process on behalf of 415 corporations; and sold 235,458 copies of documents 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

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Matthew 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 prefiling conferences with issuers.

During FY 1987-88, the Regulation Section of the Division processed 35,959 salesmen's applications and 6,867 transfers of such salesmen between dealers. The Section also processed 1,090 dealer registrations. During the year, there were 3,512 securities offerings registered, while 131 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.

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 Divisions's Enforcement Section maintains an active program in order to ensure integrity in the marketplace and preserve the investment capital formation process, rather than permit 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 the 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; and (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 1987-88, the Division initiated 111 investigations and had a total of 150 cases under investigation. It instituted 28 administrative proceedings and transmitted evidence to the Attorney General which resulted in 2 civil cases involving 64 defendants and 2 criminal cases involving 4 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 204 administrative subpoenas were issued in connection with investigations of suspected failures to comply with the Act. These subpoenas resulted in taking 135 examinations under oath of the recipients thereof.



## UTILITIES DIVISION

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Gary M. Yaquinto, Director

The Utilities Division monitors the operations of 479 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 Administrative Code 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 act when necessary to further the public interest. This authority includes control over rates, accounting practices, evaluations 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 respond to and investigate electrical incidents and accidents while Railroad Safety and Pipeline Safety conduct similar efforts for emergency situations in their respective areas. Compliance specialists ensure that utilities obey Arizona law.

The Utilities Division consists of five sections which fulfill the staff's responsibilities: Accounting and Rates, Economics and Research, Engineering, Safety, and Consumer Services. They oversee the following number of utilities:

Investor-owned electric utilities	5
REA electric cooperatives	11
Gas utilities	8
Telecommunications	22
Water utility companies	390
Sewer companies	38
Irrigation companies	5

**TOTAL 479**

## **ACCOUNTING AND RATES SECTION**

The Accounting and Rates Section provides independent analyses of the financial and ratemaking requests that utilities file for Commission approval. These requests include proposals for rate increases and new tariff provisions; requests for financing authority, fuel adjustor revisions, and depreciation rate changes; and applications for utility purchase and acquisition, for utilities applying for certificates of convenience and necessity, and for special contractual arrangements for acquiring plant or services. The Section provides a focused analysis of the impact of these requests on utility owners, rates paid by consumers, and the quality, reliability, and safety of the utility's service when making recommendations to the Commissioners.

The Staff provides expert testimony in the areas of revenue requirements, cost of capital, and rate and tariff design. The Section is responsible for developing general policy recommendations for Commission consideration in the areas of accounting, finance, and ratemaking and tariff issues in the water, wastewater, electric, gas and telecommunications industries.

Although, during FY 1987-88 the majority of the Section's efforts were directed to the water industry, the Staff presented testimony and recommendations in major proceedings involving the gas, electric, and telecommunications industries. The Staff is currently examining fuel adjustor policies and procedures, implementation of changes in the Uniform System of Accounts for telecommunications companies, and implementation of new Financial Accounting Standards Board policies concerning accounting for taxes, pensions, and regulatory disallowances.

## **ECONOMICS AND RESEARCH SECTION**

The Economics and Research Section conducts economic and policy analyses of regulatory matters, and presents testimony and recommendations to the Commission. The Section reviews tariff filings and rate applications and provides long and short-term analyses of policy choices for the Commission. In conducting these analyses, the staff uses a variety of computer models and quantitative techniques, and applies economic principles to regulatory issues.

In FY 1987-88, Economics and Research staff members reviewed numerous tariff filings involving electric, gas, and telecommunications services. One of the major themes of many filings continues to be utilities' responsiveness to increasing competition in the provision of some services.

Among the activities of the staff were: development and application of practical tests for deregulation of telecommunications services, preparation of testimony on deregulation of cellular services, review of proposed approaches to dealing with bypass of natural gas local distribution companies, development of proposed refinements of the Commission's policy on cogeneration and small power production, evaluation of an electric utility's proposed discounts to new firms and firms capable of generating their own power, and development of proposed rules for resource planning by electric utilities.



One of the major research projects of the staff is forecasting the demand for electricity in Arizona and evaluating power supply and conservation alternatives to meet that demand. The staff has obtained an end use computer model for forecasting the demand for electricity and continues to use its production cost model for electric utilities to analyze supply side issues.

By strengthening its analytical capabilities, the Economics and Research Section is better able to advise the Commission on emerging issues in utility regulation - resource planning, deregulation, and meeting competition. In addition, advanced analytical capabilities enable the Section to better support the Commission in a variety of traditional regulatory matters, including protecting and promoting consumer interests.

## **ENGINEERING SECTION**

The Engineering Section conducts technical reviews of all regulated utilities and assures compliance with accepted service, material maintenance and performance standards.

This Section monitors and conducts on-site investigations of 390 privately-owned water companies, 38 sewer companies, 16 electric utilities, and 22 telecommunications companies for assurance of adequate service. The staff investigates all incidents, accidents and injuries resulting from the operation of regulated utilities. Engineering also inventories plant facilities for reconstruction cost studies used in rate proceedings and assists the Commission's Legal Division in performing studies used in rate proceedings.

As part of its responsibilities, this section monitors the construction, maintenance and operation of the Palo Verde Nuclear Generating Station, the largest nuclear power plant in the United States. Palo Verde's Unit 1 achieved commercial operation in December 1985 and Unit 2 began commercial operation in September 1986. Palo Verde Unit 3 began commercial operation in January 1988. The costs of this facility will represent the largest single facility cost ever entered into an Arizona utility's rate base. Palo Verde has been the object of an audit to examine the prudence of management decisions and construction costs.

A major responsibility of the Engineering Section is to provide continued surveillance of the operation and maintenance of all generating plants and transmission resources within Arizona consistent with the resources available.

Inspection of substations and transmission lines is increasing as Staff members represent the Commission on the Power Plant and Transmission Line Siting Committee to determine the environmental compatibility of newly proposed generating stations and electrical transmission lines.

The Engineering Section is also expanding its computer capabilities. All maps depicting utility company certificates of convenience and necessity areas have been put on a Computer Aided Drafting System. Computer programs have been developed to track the on and off-line times of all electric generating units serving Arizona.

## **SAFETY SECTION**

The Safety Section consists of two groups: Pipeline Safety and Railroad Safety. The Section monitors pipeline and railroad safety standards and practices.

### **Pipeline Safety Group**

Pipeline Safety enforces safety standards and practices applicable to the transportation of gas and hazardous liquids by pipeline. Inspections are conducted on the facilities of gas utility operators, interstate gas transmission pipeline operators, intrastate hazardous liquid pipeline operators and master meter operators, such as mobile home parks, apartments and other gas distribution systems beyond the utilities meters. The Group is also involved in the enforcement of the Arizona Underground Facilities Law. As a result of these responsibilities, the Group monitors the activities of 12 major intrastate gas operators, 2 interstate gas transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators, 4 interstate hazardous liquid pipeline operators, and 741 master metered natural gas systems.

During FY 1987-88, The U.S. Department of Transportation granted agent status to Pipeline Safety for four interstate hazardous liquid pipeline operators. Inspection of these facilities will be conducted during the calendar year 1989.

The Group has completed inspections of 12 major gas pipeline operators, 2 interstate gas transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators and 2 interstate hazardous liquid pipeline operators during the fiscal year. The Section has completed 406 comprehensive inspections and 168 specialized inspections of master metered gas distribution systems.

The Pipeline Safety Staff provided 12 training workshops for operators of pipeline systems and 31 blue stake training workshops. The Staff has completed its pipeline safety test site facility. This facility will be utilized to train Federal and State Pipeline Inspectors, Major Pipeline Operators and Master Meter Operators of gas distribution systems.

The Group also conducts special studies, such as a recent "Temperature Evaluation Survey" to determine the temperatures that plastic pipe is subjected to in various locations of Arizona.

During FY 1987-88, 59 citations of The Underground Facility Law were issued and \$7,500 in fines were collected. Two major operators of gas pipeline systems were assessed a total of \$130,000 for probable violations of the Federal Pipeline Safety Regulations.

### **Railroad Safety Group**

The Railroad Safety Group enforces track, freight car, carrier operating practices and other federal railroad safety standards of the Federal Railroad Administration. The Staff also investigates railroad accidents and complaints throughout the state and works with industry to improve safety standards in the transportation of hazardous materials by rail. Rail-Highway crossings, industry tracks and new railroad construction projects are reviewed and inspected by the Staff on a regular basis.

The Commission, through its Railroad Safety Group, administers the state's share of monies dedicated to improving rail-highway crossing safety devices. Since the inception of this federal/state program, \$12,148,236 in federal funds and \$1,167,915 in state funds have been spent or encumbered to improve safety warning devices on 271 public rail-highway crossings throughout the state.

In FY 1987-88, the Group's six-man inspection staff inspected 7,960 miles of track, 8,625 freight cars, 654 locomotives and 310 rail-highway crossings. In addition, 185 industrial track inspections and 146 operating practices inspections were made. Additionally, 83 railroad related accidents and 68 complaints were investigated.

The Group participates in the "Operation Lifesaver" program, a national public awareness program to promote rail-highway crossing safety. The Commission's award winning video, "Operation Lifesaver," is not only used in schools and businesses in Arizona, but also is widely used in safety programs throughout the country.

### CONSUMER SERVICES SECTION

The Consumer Services Section investigates complaints regarding the operation, service and billings of public service corporations in compliance with the Statutes, Orders of the Commission, approved tariffs, and Commission Rules and Regulations.

The following tables list a comparison of inquiries handled by the Consumer Services Section during FY 1986-87 and 1987-88.

	<u>1986-87</u>	<u>1987-88</u>
Water Companies	3,251	3,403
Electric Companies	3,822	4,002
Gas Companies	1,701	1,780
Communications Companies	4,482	4,689
Sewer Companies	359	376
<b>TOTAL</b>	<b>13,615</b>	<b>14,250</b>
Service Inquiries	1,921	2,011
New Service Inquiries	1,062	1,111
Billing Inquiries	4,089	4,280
Deposit Inquiries	885	926
Other Inquiries	5,658	5,922
<b>TOTAL</b>	<b>13,615</b>	<b>14,250</b>

During this past year, the Consumer Services Section, in addition to responding to and resolving a record number of complaints and inquiries, worked in several areas.

*Small Water Company Assistance Program.* The Small Water Company Assistance Program was developed in FY 1986-87 to assist small water companies in resolving issues that have created problems for them in the past. During FY 1987-88, the small water assistance team initiated and conducted approximately 40 on-site visits to small water companies targeted as possible candidates for assistance. In addition, Staff has been working with approximately 9 companies which have been experiencing unique and severe problems in the areas of compliance, system failure, corporate status, water service shortages, and financial ability to continue the provision of adequate service. All water companies receive a quarterly newsletter which provides information on how to understand the Commission rules, to meet filing requirements, and to make system improvements. Staff has developed a simplified accounting system for small water companies and has revised its annual report and rate application forms to facilitate the new accounting procedures.

*Workshops.* Under the Small Water Company Assistance Program, Staff conducted workshops in Phoenix and Tucson on the Commission's Rules and Regulations. Workshops in Phoenix and Tucson were also conducted to introduce simplified accounting procedures and new rate application and annual report forms. In addition, the Consumer Services Section also conducted several workshops on the Telephone Assistance Program.

*Public Comment Meetings.* In an effort to give customers an opportunity to voice their concerns and opinions on the rates or quality of service of the water company serving them, the Consumer Services Section has begun conducting Public Comment Meetings. When a water company files for a rate review, the Consumer Services Section monitors all customer letters and comments. They investigate service problems and respond to the customers. If the comments and problems are significant, Staff arranges for a Public Comment Meeting. These Public Comment Meetings have been beneficial in establishing dialogue between companies and the customers.

*Mediation Meetings.* The Consumer Services Section also conducts mediation meetings between customers and utility companies when informal complaints have not been resolved. Staff conducted 4 mediation proceedings of which 3 were resolved without a formal hearing.

### 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. In addition, the library has videotapes on telecommunications policies and practices.

### OPEN MEETINGS

The Commission conducts Open Meetings on a regularly scheduled basis for the purpose of decision making. During FY 1987-88, the following Utilities items were submitted to the Commission for deliberation:

	<u>Elec</u>	<u>Gas</u>	<u>Water &amp; Irrig</u>	<u>Sewer</u>	<u>Tele &amp; Comm</u>	<u>RR</u>	<u>Total</u>
Rates	3	4	35	3	10	0	55
Transfers	0	0	10	0	1	0	11
Fuel Adj.	3	5	4	0	0	0	12
Certificates	1	1	35	5	2	0	44
OSC	0	11	4	0	2	0	17
Financing	9	0	20	0	0	0	29
Complaints	8	1	3	2	2	0	16
Tariffs	19	5	7	2	50	0	83
Grade Crossings	0	0	0	0	0	19	19
Others	25	8	34	1	4	0	72
<b>TOTAL</b>	<b>68</b>	<b>35</b>	<b>152</b>	<b>13</b>	<b>71</b>	<b>19</b>	<b>358</b>

## RATE CASES

A major portion of the Utilities Division's responsibility is rate review and determination of a reasonable return of fair value for public service companies. A.R.S. Section 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, gas, telephone, water and sewer issues.

## REVENUES

The Division collects an annual assessment from the utilities, as established by A.R.S. Sections 40-401 and 40-401.01. The total revenue collected by assessment during FY 1987-88 was as follows:

	<b>UTILITIES REV. FUND*</b>	<b>RUCO**</b>	<b>TOTAL</b>
Electric	\$2,963,969	\$486,926	\$3,450,895
Telephone	1,371,941	254,103	1,626,044
Gas	539,741	117,414	657,155
Water	92,990	22,200	115,190
Sewer	13,340	3,394	16,734
Communications/ Mobile Radio	40,549	0	40,549
<b>TOTAL</b>	<b>\$5,022,530</b>	<b>\$884,037</b>	<b>\$5,906,567</b>

NOTE: Assessment rates were computed as follows:  
 \*0.1612 percent of intrastate total gross operating revenue  
 \*\*0.0664 percent of intrastate residential gross operating revenue



## LEGAL DIVISION

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Timothy M. Hogan, Chief Counsel

The Legal Division was established in July of 1983 under A.R.S. Section 40-106 to provide legal representation to the Commission in connection with all of its powers and duties except matters arising out of the activities of the Securities Division. The goal of the Legal Division is to provide professional, high quality and timely legal counsel and representation to the Commission in an efficient and effective manner.

Matters handled by the Legal Division are varied and many. Typically they fall into five categories: Commission dockets, federal regulatory dockets, litigation, other administrative matters and special projects.

During FY 1987-88, the Division's resources were substantially directed to ever-escalating levels of Commission hearings, and state and federal litigation.

The major portion of the Division's resources are consumed in representation of the Commission's Utilities Division. The Division helps Utilities Division prepare and defend its position in hearings concerning a variety of Utilities matters, such as sewer, water, electricity, telephone, gas, railroad, and pipeline safety. This not only requires hearings before the Commission, but also before federal regulatory agencies (Federal Energy Regulation Commission and the Federal Communications Commission) where the Division represents the Commission and protects the state's interests regulatory proceedings affecting utility companies. Also when a party to a Commission hearing is dissatisfied with the Commission's final decision, that party may appeal through the court system.

Over the past year, the number of federal cases handled by the Legal Division increased 31 percent for telecommunications-related cases and 113 percent for energy-related cases. The number of Superior Court cases rose 11 percent, while the appellate court cases rose 25 percent. This increase in litigation has increased demands on Legal Division Staff: in FY 1987-88 the number of court cases requiring trials, and the number of cases requiring more than one attorney both rose 50 percent.

Various administrative matters also require the involvement of the Legal Division. An ongoing "system" within the Commission is the participation of advisory teams for the larger cases heard by the Commission. Due to the ex-parte rule which prohibits unauthorized communications and in effect isolates Commissioners from the technical and policy experts on the staff who actually participate in ongoing cases, the Commissioners in the past had no technical assistance to independently evaluate the positions advocated by parties in Commission proceedings. The Commission now assigns technical staff (including an attorney) not associated with the staff litigation team which is responsible for presentation of the Staff's position at hearings. The advisory team meets as a group in order to discuss the case, provide technical assistance and otherwise advise the Commissioners as often as they wish.

The largest of the special ongoing projects has been the Palo Verde Nuclear Generation Station audit. This audit continued at an accelerating pace throughout FY 1987-88. The complexity of the legal issues and the intensification of the auditor's efforts resulted in a corresponding increase in the Legal Division's commitment to the audit. The audit has required most of the time of a senior attorney and a significant portion of the time of a second attorney.

There have been many other ongoing Legal Division projects, including but not limited to the revisions of rules and regulations for the different divisions, participation on the least cost resource planning team, and on the telecommunications teams investigating deregulation issues. Each one of these special projects has involved a significant investment of the time and other resources on the part of the Legal Division.



## SOUTHERN ARIZONA OFFICE

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As noted in several areas of this Annual Report, the Corporation Commission maintains a Southern Arizona Office, located in the state office building 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 Divisions as well as a senior Hearing Officer from the Hearing Division are located here. During FY 1987-88, the pipeline and railroad safety personnel were relocated to new offices in the state office building. This alleviated the overcrowded conditions that had existed for several years. In addition, the originally assigned space was renovated to provide a better working environment.

Workload and achievements have continued to increase in all sections. During FY 1987-88, the Corporations section processed more than 11,700 filings, related documents and other transactions, and collected more than \$495,400 in fees.

Tucson Personnel assigned to the Utilities Division provided many consumer oriented services, prepared staff input to rate cases, conducted railroad safety training and inspections, and fulfilled pipeline safety requirements.

The Hearing Officer in Tucson conducted 17 hearings and issued 26 orders and opinions during the Fiscal Year. In addition, he performed many liaison functions within the Southern Arizona Area.

Not only does availability of the Tucson Office provide a convenience to Southern Arizona residents, it facilitates better state-wide accomplishment of Corporation Commission responsibilities. Therefore, opportunities for enhanced operation are continually evaluated.





## 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 Regulation Revolving Fund and Federal Grants. The first two require legislative appropriation. The Administration, Hearing, Securities and Corporations Divisions as well as the Railroad Safety Group of the Utilities Division are funded from the General Fund. All other requirements of the Utilities and Legal Divisions are funded through the Utility Regulation Revolving Fund, which derives its money from assessments on Public Service Corporations. The Federal Funds are obtained as a reimbursement to the Pipeline Safety Group 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 FY 1986-87 (Actual), FY 1987-88 (Report Year Actual) and FY 1988-89 (Estimated).

**TABLE 1  
REVENUE BY SOURCE**

	Actual 1986-87	Actual 1987-88	Estimate 1988-89
Corporation Filing Fees*	3,838,200	3,938,300	4,000,000
Security and Broker Fees*	3,511,400	3,969,600	4,000,000
Misc. Service Charges*	38,200	100,700	100,000
Utility Assessments**	4,395,400	5,022,500	5,600,000
Pipeline Safety Revolving Fund	0	45,000	50,000
Fines and Forfeitures*	0	17,900	18,000
Federal Grant	124,100	125,300	160,900
<b>TOTAL</b>	<b>\$11,907,300</b>	<b>\$13,219,300</b>	<b>\$13,928,900</b>

**TABLE 2  
EXPENDITURES BY DIVISION**

	<b>Actual 1986-87</b>	<b>Actual 1987-88</b>	<b>Estimate 1988-89</b>
Administration/Hearing Div.	1,961,200	2,028,700	1,823,100
Corporations Division	968,700	949,300	1,035,400
Securities Division	1,338,000	1,332,900	1,493,600
Railroad Safety Group (Utilities Division)	360,700	384,000	530,100
Utilities Division	3,976,200	3,661,600	4,557,400
Legal Division	717,900	817,900	904,000
<b>TOTAL</b>	<b>\$9,322,700</b>	<b>\$9,174,400</b>	<b>\$10,343,600</b>

**TABLE 3  
EXPENDITURES BY FUND SOURCE**

	<b>Actual 1986-87</b>	<b>Actual 1987-88</b>	<b>Estimate 1988-89</b>
General Fund	4,628,600	4,694,900	4,882,200
Util. Reg. Revolving Fund	4,570,000	4,354,200	5,300,500
Federal Grant	124,100	125,300	160,900
<b>TOTAL</b>	<b>\$9,322,700</b>	<b>\$9,174,400</b>	<b>\$10,343,600</b>

\* Deposited in the State General Fund

\*\* Deposited in Revolving Fund for Utilities and Legal Divisions

**Note:** General Fund Revenue appropriated by the legislature for FY 1987-88 was reduced \$106,900 through legislative ex-appropriation in the spring of 1988. Therefore, the actual amount expended during FY 1987-88 was necessarily less than the estimate shown in the Corporation Commission's 75th Annual Report.



## APPENDIX B

### **ARIZONA PUBLIC SERVICE COMPANY (APS)**

U-1345-85-367, Palo Verde 2 Case

U-1345-86-062, Decommissioning Case

U-1345-87-069, Fuel Adjustment Case

U-1345-87-117, Palo Verde Unit 3 Accounting Order

On December 18, 1985, APS filed an application (Palo Verde 2 case) with the Commission to increase its rates and charges for electrical service. APS originally filed for a \$193.9 million increase, which was subsequently changed to \$183.4 million. The revised request represented a 15.5 percent increase which was to be offset by a decrease in purchased power and fuel adjustment factor of 8.5 percent, for a net increase of approximately 7 percent. On July 29, 1986, the Commission consolidated the Palo Verde Nuclear Plant decommissioning docket (U-1345-86-062) with the Palo Verde 2 case.

The hearing began in Phoenix on March 23, 1987, and ended on June 22, 1987, with public comment sessions held in Holbrook, Yuma, Payson, Cottonwood, Prescott and Sun City in December 1986, February 1987, and March 1987.

The Commission issued its order in these proceedings on April 1, 1988 (Decision No. 55931). The Commission reduced the request by \$94.6 million, more than 51.5 percent, to \$88.8 million. In a companion order (Decision No. 55930), the fuel adjustment case, also issued on April 1, 1988, the Commission reduced fuel rates by \$57.8 million for a \$25 million net rate increase, or 2.4 percent. Of the reduction in fuel rates, \$31.4 million was related to a one-time refund of overcollections for fuel expenses.

The portion of the rate increases associated with the Palo Verde Units 1 and 2 are subject to refund pending the findings of a prudency audit of the costs of the entire Palo Verde Nuclear Generating Stations.

The Commission also ordered APS to: (1) develop and implement a pilot program for targeted lifeline rates and conversation programs for low-income residential customers, (2) provide detailed data on transactions with affiliated organizations such as Pinnacle West, and (3) place funds collected for decommissioning in a Commission approved external trust fund.

On July 24, 1987, APS requested permission to defer and capitalize its costs of owning, operating and maintaining Palo Verde Unit 3. Hearings were conducted November 9-13, 1987. On April 6, 1988, in Decision No. 55939, the Commission approved the deferral of only APS' incremental Palo Verde Unit 3 capital costs, non-fuel operations and a maintenance costs, depreciation and taxes. The deferrals are subject to disallowance in future proceedings as the result of findings of the prudency audit of the costs of the Palo Verde Nuclear Generating Station.

### **MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (MOUNTAIN BELL)**

E-1051-84-288, *et. al.*

On December 23, 1987, the Commission issued Decision No. 55828, ordering Mountain Bell to appear at a hearing to Show Cause why the Commission should not rescind, alter, or amend its prior approval of 976 and 676 Scoopline Service or discontinue, alter or amend the terms and conditions upon which the service is offered. This proceeding was initiated in response to a significant number of complaints from customers of Mountain Bell concerning billing problems, terminations, and content of the Scoopline Services.

Public comment hearings were held on January 21, 1988, and January 26, 1988 in Phoenix and Tucson. Ten days of public hearings on the Scoopline issues were held in February 1988 and March 1988.

On June 29, 1988, the Commission, in Decision No. 56039, ordered Mountain Bell to provide access to Scoopline programming on a presubscription basis.

**AT&T COMMUNICATION OF THE MOUNTAIN STATES, INC. (ATTCOM)**

U-2428-86-268

On March 25, 1987, ATTCOM filed an application to increase its Arizona jurisdictional revenues and to restructure the revenue responsibility among the customer classes to more closely reflect ATTCOM's costs of providing service.

Hearings were conducted November 2-6, 1987. ATTCOM initially requested a revenue increase of \$1.6 million, which was subsequently adjusted downward to \$1.1 million. The Commission granted a \$1.0 million increase in total revenues. However, the Commission decreased revenue responsibility for intrastate long distance toll customers by \$1 million, a 2.5 percent decrease, and increased revenue responsibility for dedicated line customers (primarily large business customers) by \$2 million, a 50 percent increase.

The Commission also approved an Access Cost Adjustor Mechanism which will provide ATTCOM with the flexibility to adjust rates for its services when the prices it pays to Arizona's local exchange telecommunication companies for access to customers are changed by the Commission.

**MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (MOUNTAIN BELL)**

E-1051-87-272

On November 6, 1987, Mountain Bell filed an application to restructure its service offerings by seeking deregulation of a number of services and classifying other services as competitive services. The Commission required its Staff to prepare two reports providing Staff's recommendations for the regulatory treatment of these services. Through these reports, Staff developed and applied tests for systematically reviewing the desirability of deregulation and of flexibly priced offerings. Since Mountain Bell did not submit information to satisfy the tests for deregulation and flexible offerings, the Commission, in Decision No. 56159, dated September 29, 1988, dismissed the application.

**SOUTHWEST GAS CORPORATION**

U-1551-86-300 (Apache Division)

U-1551-86-301 (Papago Division)

On November 21, 1986, Southwest Gas Corporation filed applications to increase its rates for its Apache and Papago operating divisions. The Apache Division generally operates in southern Arizona, with the majority of its customers located in Tucson. The Papago Division operates in the remainder of Arizona with customers located primarily in Maricopa, Yuma and Cochise Counties. Southwest had requested revenue increases of \$9 million, a 9.2 percent increase, for its Apache Division and \$43.6 million, a 25.9 percent increase, for its Papago Division.

On September 1, 1987, in Decision No. 55708 and No. 55709, the Commission approved a modified agreement reached among the parties to the case - Southwest Gas, the Residential Utility Consumer Office, the Executive Agencies of the United States, Tucson Electric Power Company, Arizona Public Service Company, and Utilities Division Staff. The agreement resulted in a \$6.5 million revenue increase, or 6.6 percent, for the Apache Division, and a \$32.6 million revenue increase, or 19.4 percent, for the Papago Division.

**MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (MOUNTAIN BELL)**  
E-1051-85-152

On August 25, 1986, Mountain Bell filed a Public Access Line (PAL) tariff which would provide access to Mountain Bell's network for Customer Owned Pay Telephones (COPTs). Hearings were conducted in December 1986 and March 1987 to address the terms, conditions and rates under which Mountain Bell would provide access to pay telephone competitors. On December 10, 1987, in Decision No. 55817, the Commission approved a tariff which required Mountain Bell to provide measured service to coin resellers in areas where this service is available, or flat rate service where measured service is not available.

Workshops were held in February 1988 to discuss the issues related to Commission certification of COPTs and the regulatory standards that should be applied to COPTs providing service in Arizona.

