

ARIZONA CORPORATION COMMISSION



77TH ANNUAL REPORT 1988-1989

ARIZONA CORPORATION COMMISSION

THE COMMISSIONERS

Renz D. Jennings, Chairman
Marcia Weeks, Commissioner
Dale H. Morgan, Commissioner

EXECUTIVE SECRETARY

James Matthews

DIVISION DIRECTORS

Philip R. Moulton, Administration
Beth Ann Burns, Hearing
Joan E. Adams-Moore, Corporations
Victor Rodarte, Securities
Gary M. Yaquinto, Utilities
Timothy M. Hogan, Legal

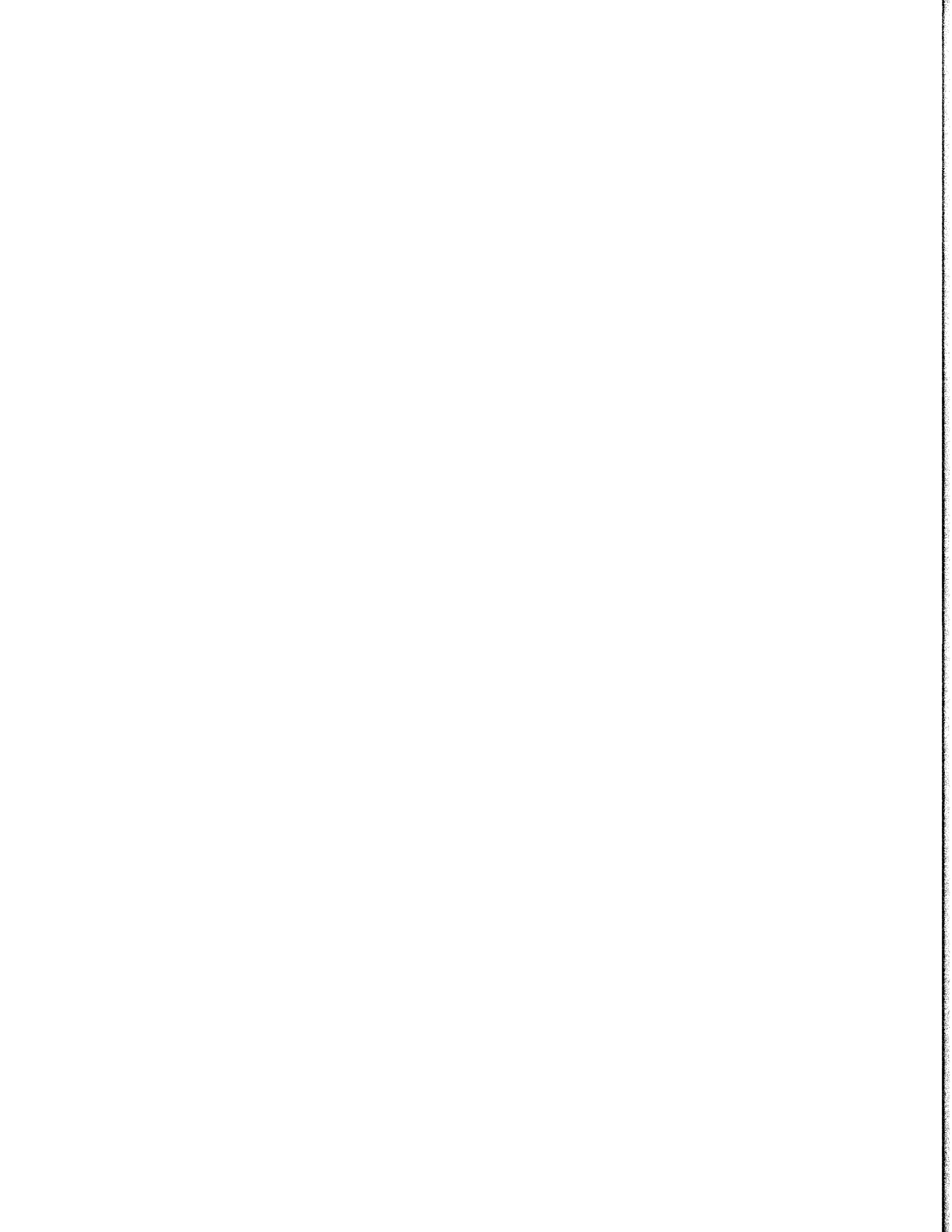
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**ARIZONA
CORPORATION
COMMISSION
SEVENTY-SEVENTH
ANNUAL REPORT
JUNE 30, 1989**



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, 1988 – June 30, 1989. 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.

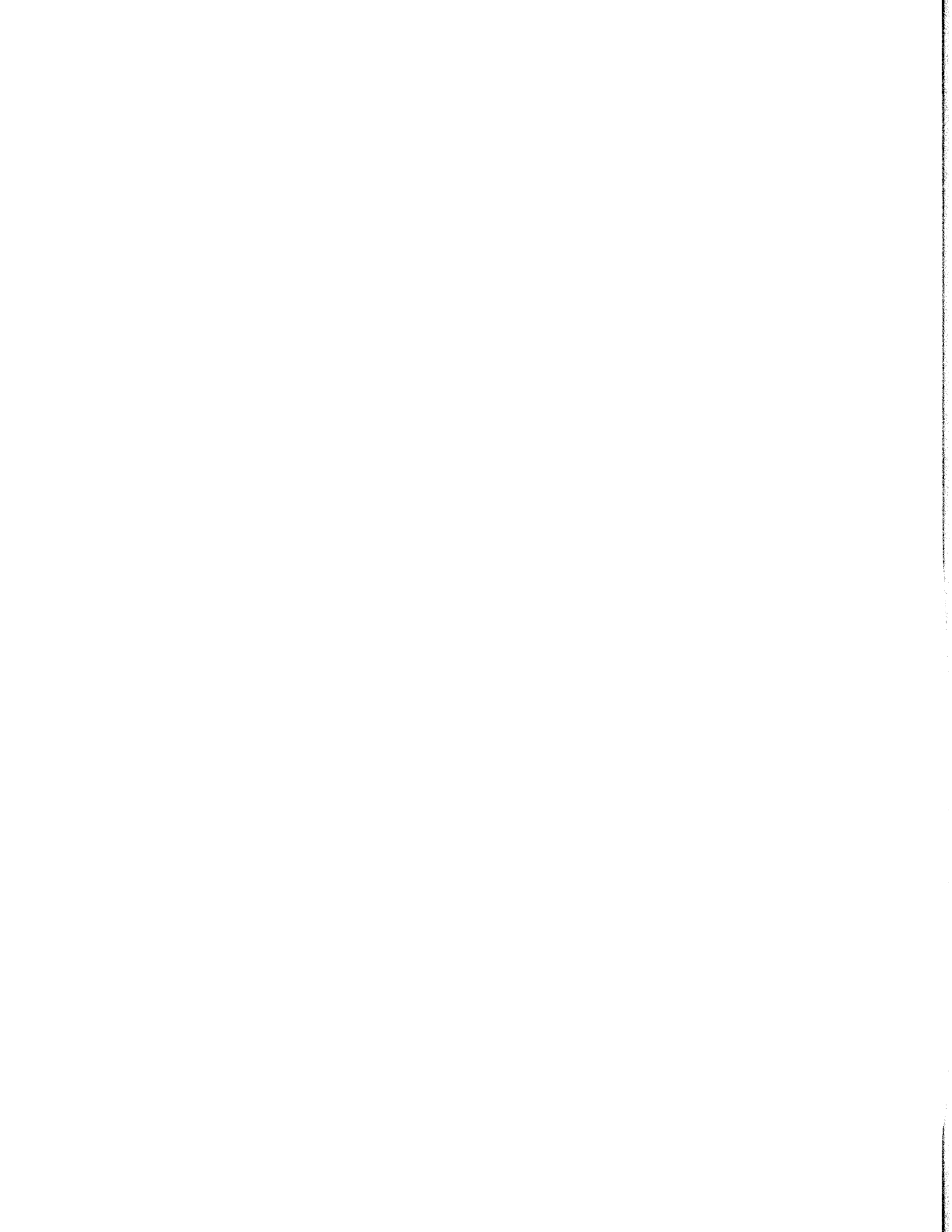
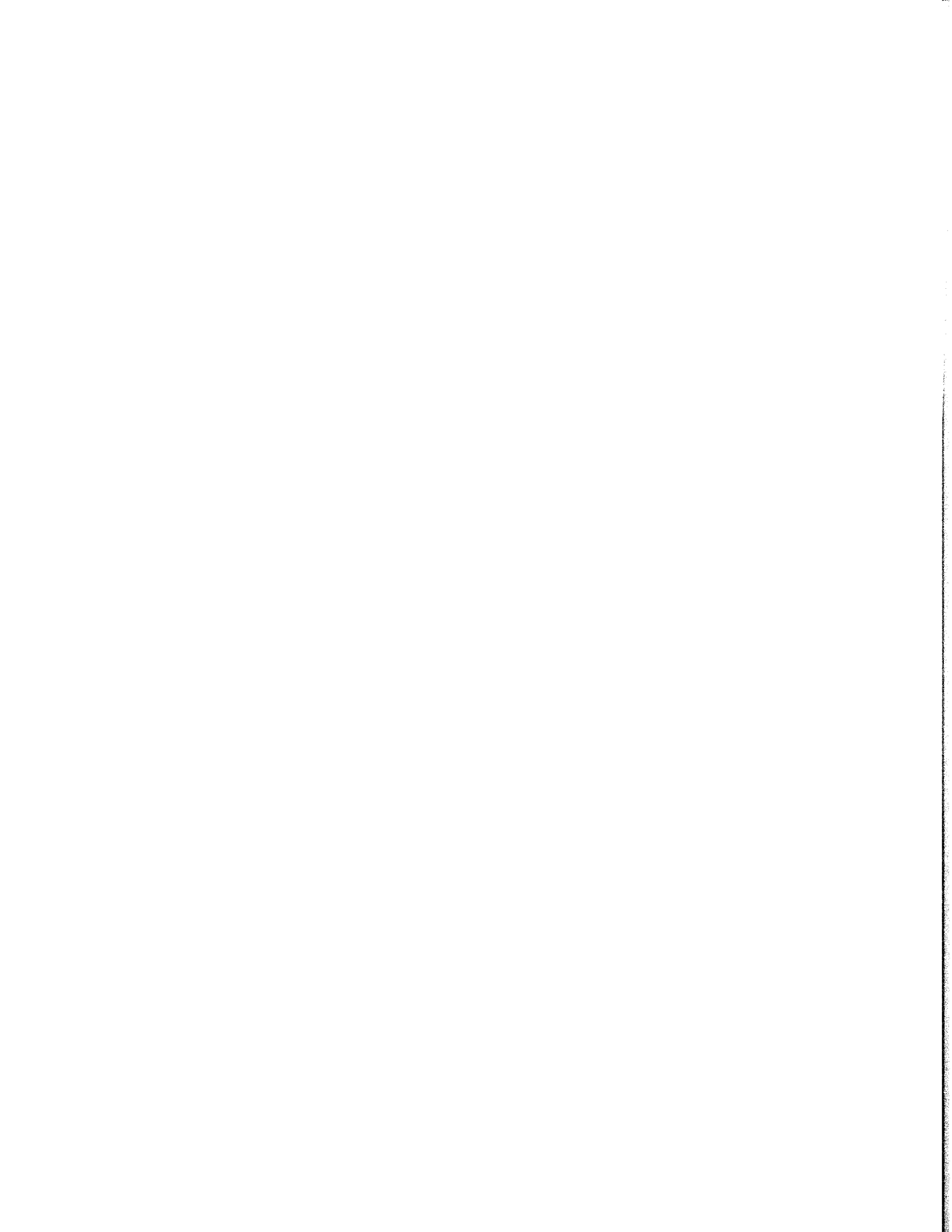


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COMMISSIONERS

RENZ D. JENNINGS
Chairman

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.



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. Her current term will expire in January 1991.



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. He was re-elected in November 1988. His current term will expire in January 1995.





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 a 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's powers and duties are listed in A.R.S. Section 40-105.

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.

Mr. Matthews serves as Chairman of the National Association of Regulatory Utility Commissioners' Subcommittee on Executive Directors. He has been appointed by Governor Rose Mofford to a three year term on the Arizona Disease Control Research Commission.



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 SECTION

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 1988-89, the Data Section staff continued to participate in many operational improvements. In conjunction with Securities Division staff and personnel from the Data Center, improvements were made to the Securities Division's registration and enforcement system.

Conversion of the Incorporating System to the Data Center's NAS mainframe was completed in November 1988. This new system provides real-time processing of documents to update Corporate records. Enhancements for tracking Statutory Agents and Corporations dissolving or withdrawing were completed. New Name Search software permitting Alpha/Phonetic searches of name lists was installed. Additional

enhancements were made to satisfy requests received from the private sector for public corporate records.

Planning was begun to install new software in the Business Office in preparation of converting to the automated AFIS residing in the Data Center's NAS mainframe. The Business Office is participating in a test development to evaluate alternative cost efficient methods of transmitting and receiving financial transactions from the Department of Administration's General Accounting Office.

Divisions of the Commission continue to add microcomputers to both independent and LAN work stations. This is in keeping with the Commission's long range goal of providing optimum computer capability.

Numerous enhancements of the software to the Honeywell minicomputer were also completed during the fiscal year.

DOCKET CONTROL SECTION

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 1988-89 include the following:

Filings Docketed and Distributed	4,248
Research Activities/Assisting Public	4,522
Case Management System	
Maintenance Actions	4,357
Daily Updates of Pending Action	3,430



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 1988-89, the five Hearing Officers in the Division conducted 146 public hearings, encompassing a total of 239 days. A summary of these hearings is shown below.

PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1988-89

TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	25
Transfers/Sales	2
Certificates of Convenience and Necessity	19
Orders To Show Cause and Complaints	19
Financing	6
Fuel Adjustment Cases	6

TYPE OF HEARING	NO. OF HEARINGS
Pre-Hearing Conferences	24
Public Comments	9
Rules (new and amended)	3
Adjudications	2
Deletions	0
Revocations	0
Generic Hearings	0
Securities Division	13
Corporations Division	0
Railroad/Safety Group	1
Miscellaneous (oral arguments, motions to compel, etc.)	17
TOTAL	146

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 1988-89, the Hearing Division prepared a total of 304 recommended orders, 178 for cases involving a hearing and 126 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 1988-89, the Hearing Division issued 243 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 10-0002 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, 1989, there were 110,722 corporations transacting business in the State of Arizona - 94,278 domestic and 16,444 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.

This 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 155,000 corporate and trade names registered in Arizona.

The number of documents processed by the Incorporating Section during FY 1988-89 were as follows:

Domestic Articles of Incorporation	11,569
Foreign Applications for Authority	2,522
Domestic and Foreign Amendments	4,055
Certificates of Good Standing	6,795
Certification of Orders	4,045
Domestic and Foreign Mergers	831

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. Sections 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 1988-89, this Section processed the following:

Annual Reports	87,680
Delinquency Notices	36,727
Revocations	13,945

RECORDS SECTION

The Records Section is responsible for maintaining all corporation documents filed with the Commission. All corporate files are public records. 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 1988-89 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 1988-89, the Records Section filmed over 526,784 documents; accepted service of process on behalf of 427 corporations; and sold 248,400 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

Victor Rodarte, Acting 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 three sections, Regulation, Broker/Dealer 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 securities under the Act; and in drafting amendments to the Act and to Rules and Regulations. The Section participates in early stages of the capital formation process through its prefiling conferences with issuers.

During FY 1988-89, there were 3,742 securities offerings registered, while 175 issuers qualified for exemptions from the registration requirements of the Act.

The 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.

BROKER/DEALER SECTION

The Division was reorganized during the year to create a section to address issues pertaining to the ever-expanding universe of registered dealers and salesmen. This Section is responsible for administration of licensing procedures and for enforcement of the dealer and salesman

provisions of the Arizona Securities Act. The Section will conduct on-site examinations of dealers in its efforts to ensure compliance with the Act.

During FY 1988-1989, the Broker/Dealer Section of the Division processed 37,898 salesmen's applications and 6,301 transfers of such salesmen between dealers. The Section also processed 1,095 dealer registrations.

ENFORCEMENT SECTION

The Division'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 capital 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's or salesman's registration, to assess fines and to order rescission or restitution. These remedies, and item (1) above, are Commission administrative processes.

During FY 1988-89, the Division initiated 122 investigations and had a total of 188 cases under investigation. It instituted 42 administrative proceedings and transmitted evidence to the Attorney General which resulted in 3 civil cases involving 18 defendants and 6 criminal cases involving 10 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 197 administrative subpoenas were issued in connection with investigations of suspected failures to comply with the Act. These subpoenas resulted in taking 59 examinations under oath of the recipients thereof.

ADMINISTRATIVE MATTERS

The Legislature considered and passed House Bill 2277 during the 1989 General Session. The

Bill, subsequently passed into law by the Governor, simplified the capital formation process by (1) creating a "fast-track" registration process for qualified applicants; (2) creating an exemption from registration for securities listed on the National Market System equivalent to the stock exchange listing exemption; and (3) creating an exemption from registration of securities for secondary trades of securities meeting certain requirements listed on the National Association of Securities Dealers Automated Quotation System. The Bill also addressed abuses of the manual exemption by adding certain restrictions on the availability of the exemption.



UTILITIES DIVISION

Gary M. Yaquinto, Director

The Utilities Division monitors the operations of 471 utilities providing service within the State of Arizona. The Division reviews 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 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	21
Water utility companies	386
Sewer companies	36
Irrigation companies	4
TOTAL	471

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 changes and new tariff provisions; requests for financing authority; fuel adjuster revisions; depreciation rate changes; applications for utility purchases and asset transfers; applications for certificates of convenience and necessity; special contract approvals; and special accounting requests. The Section provides recommendations on the various requests only after considering the impact of the recommendation on ratepayers, utility owners, the long-run financial integrity of the utility, the economic conditions present in the service territory, and the quality, reliability and safety of the utility's service.

In addition to responding to formal utility requests, technical assistance is provided to other sections within the Utilities Division when required to respond to questions of utilities, ratepayers, management or the public at large. Additionally, the Section staff members interact with outside expert consultants, who provide assistance to the Section members or supplement the work of the Section staff.

The staff provides expert testimony in the areas of revenue requirements, including investment level, revenues, and expenses; cost of capital, including the proper portion of debt and equity financing, and the appropriate cost of debt and equity rate design; and other technical accounting and finance areas. The Section is responsible for developing general policy recommendations for Commission consideration, in the areas of accounting, finance, and rate-making which impact on water, wastewater, electric, gas and telecommunications utilities.

While a large portion of the Section's resources during the 1988-1989 FY were devoted to water industry matters, Accounting and Rates staff also participated in a number of proceedings involving major gas, electric, and telecommunications utilities. The staff is currently revising its fuel cost monitoring procedures; updating depreciation standards and practices; and formulating policy recommendations regarding resellers of telecommunication services. Staff members have also begun involvement in the review and inventory of issues pertaining to the increasingly important area of utility diversification. The staff provided assistance in analyzing affiliated interest and diversification issues for Arizona Public Service Company and Tucson Electric Power Company and developed rules on public utility holding companies. Also, in-house training programs have been instituted, which include the participation of staff from other sections of the Commission.

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 1988-89, Economics and Research staff members reviewed numerous tariff filings involving electric, gas, and telecommunications services. Many of these filings involved the

offering of new telecommunications services and responses to competition in the provision of some services.

Among the activities of the staff were: preparation of testimony on telephone rates and policy, preparation of testimony in support of discontinuing fuel adjustor provisions for two large electric utilities, development of refinements of the Commission's policy on cogeneration and small power production, implementation of rules on resource planning by electric utilities, preparation of testimony on rates for several rural electric cooperatives, and initiation of a process to revise telephone pricing in the Phoenix and Tucson metropolitan areas.

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 at least cost. The staff uses an end use computer model for forecasting the demand for electricity and a production cost model for analyzing supply side issues such as power production costs and system reliability.

With its analytical and modeling capabilities, the Economics and Research Section is better able to advise the Commission on new issues in utility regulation such as resource planning, meeting competition and estimation of utility costs. 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 to assure compliance with accepted service, safety, maintenance, performance and regulatory standards.

This section monitors and conducts on-site investigations of 386 privately-owned water companies, 36 sewer companies, 16 electric utilities, and 21 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 performs studies used in rate proceedings.

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, including the Palo Verde Nuclear Generating Station, the largest nuclear power plant in the United States.

Engineering staff members assist the Commission in its role as a member of 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 service 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

The Pipeline Safety Group operates its main office in Phoenix. The Group also maintains offices in Tucson, Flagstaff, and Prescott.

Pipeline Safety enforces safety standards and practices applicable to the transportation of gas and hazardous liquids by pipeline. Inspections are conducted on interstate gas transmission and hazardous liquid pipeline facilities and master meter gas operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the gas utility company meter. The Group is also

involved in the enforcement of the Arizona Underground Facilities, or "Blue Stake" Law.

As a result of these responsibilities, the Group monitors the activities of two interstate natural gas transmission pipelines, three interstate hazardous liquid pipelines, 12 major intrastate gas utility operators, three intrastate hazardous liquid pipelines, and 1,354 master meter operations.

The Group inspected 12 major intrastate gas utility operators, three intrastate hazardous liquid pipeline operators, three intrastate hazardous liquid pipeline operators and two interstate hazardous liquid pipeline operators. The Group completed 679 comprehensive inspections and 502 specialized inspections of master meter gas distribution systems.

During the past year, the Group investigated 97 reported violations of the Underground Facilities Law, and 75 notices of violations were issued and \$9,750 was collected. The Group investigated 45 incidents reported by operators of pipeline facilities.

The Pipeline Safety Group has provided nine training workshops during the past year for operators of pipeline systems and has a program where master meter operator personnel who have attended the training classes may use the Group's pipe locating and leak detection equipment to assist them in the operation of their systems. During FY 1988-89, the Group also conducted 39 Blue Stake training classes.

The Group has completed its Temperature Evaluation Survey to determine the temperatures that plastic pipe is subjected to in various locations in Arizona. The results of this survey will be presented at the 1989 Plastic Pipe Institute, American Gas Association Symposium.

The Group provides natural gas safety education material to private and public schools and civic organizations to assist them in safety education efforts.

The Pipeline Safety Group produced a "how-to" tape on the new Blue Stake Law that becomes effective in 1990.

Railroad Safety Group

The Railroad Safety Group enforces track, freight car motive power equipment, carrier operating practices, hazardous material transportation and other railroad safety standards of the Federal Railroad Administration (FRA). The Group is also charged with inspection and review of industrial tracks, rail-highway crossings and new railroad construction projects. In addition to its main office in Phoenix, the Group maintains an office in Tucson. This provides the Commission with a direct contact for Southern Arizona citizens and rail transportation operators and provides a means for timely response to rail incidents.

During FY 1988-89, the Group's six inspectors inspected 8,525 miles of track, 9,675 freight cars, 635 locomotives, 385 rail-highway crossings and 171 industrial tracks. The Group also inspected 146 operating practices and 55 manufacturers that ship and receive hazardous materials by rail. The Group investigated 90 railroad accidents and 46 complaints received from other governmental agencies and the public. In addition, staff was joined by the FRA Western Regional Office in inspecting the Santa Fe and Southern Pacific Railroad track systems with a specially designed geometry inspection car.

During FY 1988-89, three new shortline railroads began operating in the state, increasing the total number of operating railroads in the state to 10. Also, the Grand Canyon Railroad was scheduled to begin operations in September 1989, transporting passengers between Williams and the Grand Canyon. Staff has begun to review the need for a training program for new shortline railroad operators since most do not have experience in proper operating practices regulations.

The Commission administers the State's share of monies dedicated to improving rail-highway

crossing safety devices. Since the inspection of this federal/state program in July 1977, \$16,851,974 in federal funds and \$1,268,428 in state funds have been spent or encumbered to improve safety warning devices on 279 public rail-highway crossings throughout the state. The staff, with the Federal Highway Administration and the Arizona Department of Transportation, conducts an annual review of public rail-highway crossings throughout the state and prepares a priority list of crossings to be improved with federal and state funds. The priority list is submitted to the Commission for its review with the top 20 rail-highway crossings being the goal for improvement on an annual basis. The list is then submitted to the cities, towns and/or counties to make applications for funding.

The group participates in the National Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing safety. The Commission's award winning video, "Operation Lifesaver", is widely used in the Arizona High School Driver Education and Driver Survival Programs, as well as other driver safety programs throughout the country. The staff participated in four public awareness gatherings during FY 1988-89.

CONSUMER SERVICES SECTION

The Consumer Services Section 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.

The following tables list a comparison of inquiries handled by the Consumer Services Section during FY 1986-87, 1987-88 and 1988-89.

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Water Companies	3,251	3,403	3,505
Electric Companies	3,822	4,002	4,122
Gas Companies	1,701	1,780	1,833
Communications Companies	4,482	4,689	4,830
Sewer Companies	359	376	387
TOTAL	13,615	14,250	14,677

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Service Inquiries	1,921	2,011	2,071
New Service Inquiries	1,062	1,111	1,144
Billing Inquiries	4,089	4,280	4,408
Deposit Inquiries	885	926	954
Other Inquiries	<u>5,658</u>	<u>5,922</u>	<u>6,100</u>
TOTAL	13,615	14,250	14,677

During this past year, the Consumer Services Section, in addition to responding to and resolving a record number of complaints and inquiries, has initiated services through the small water company assistance program, public comment meetings and mediation proceedings.

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 1988-89, the small water assistance team initiated and conducted approximately 10 on-site visits to small water companies targeted as possible candidates for assistance. In addition, staff has been working with several small water utilities that 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. The Utilities Division produces a quarterly newsletter which provides information on understanding the Commission rules, meeting filing requirements, and making 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.

During the past year, staff has conducted a series of educational workshops throughout the state for small water company owners and operators. The monthly workshops include discussions on the Safe Drinking Water Act; explanations of current and proposed changes in Rules and Regulations of the Arizona Corporation Commission, Arizona Department of Environmental Quality and Department of Water Resources; and information on system design.

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. During FY 1988-89, staff conducted eight Public Comment Meetings.

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

LIBRARY

The Division maintains a library used by Commission employees and the public, 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.

During FY 1988-89, the Division expanded the library to include video tapes and audio cassettes on various computer programs and self-improvement courses.

OPEN MEETINGS

The Commission conducts Open Meetings on a regularly scheduled basis for the purpose of decision making. During FY 1988-89, the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Water & Irrig	Sewer	Tele & Comm	RR	Total
Rates	5	1	57	0	3	0	66
Transfers	0	0	14	0	1	0	15
Fuel Adj.	6	7	4	0	0	0	17
Certificates	0	1	26	3	2	0	32
OSC	1	0	1	0	0	0	2
Financing	5	0	27	0	3	0	35
Complaints	10	3	10	1	16	0	40
Tariffs	12	3	5	0	69	0	89
Grade Crossings	0	0	0	0	0	11	11
Others	<u>15</u>	<u>2</u>	<u>33</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>53</u>
TOTAL	54	17	177	5	96	11	360

and other interested parties; formulation of the staff recommendation and an analysis of the impacts of the recommendation; and preparation of written testimony and schedules. The Commission has had several major proceedings this year which are individually described in Appendix B.

RATE CASES

A major portion of the Utilities Division's responsibility is rate review and the determination of a reasonable return on fair value for public service corporations. 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 hearing begins from the time of the utility's initial filing, and takes approximately four to six months before the hearing takes place. Work efforts between the time of filing and the hearing include a review of past Commission actions, a review of documents on file with the Commission; an audit of the books and records of the utility; discussions with utility personnel

REVENUES

The Division collects an annual assessment from utilities, as established by A.R.S. Sections 40-401 and 40-401.01. The total revenue collected by assessment during FY 1988-89 was as follows:

	UTILITIES REV. FUND*	RUCO**	TOTAL
Electric	\$3,047,090	\$500,242	\$3,547,332
Telephone	1,362,599	248,967	1,611,566
Gas	510,467	122,742	633,209
Water	90,675	24,576	115,251
Sewer	14,406	3,781	18,187
Cellular Tele- phone Service	<u>20,762</u>	<u>0</u>	<u>20,762</u>
TOTAL	\$5,045,999	\$900,308	\$5,946,307

NOTE: Assessment rates were computed as follows:

*0.1557 percent of intrastate total gross operating revenue

**0.0664 percent of intrastate residential gross operating revenue



LEGAL DIVISION

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 (state and federal), other administrative matters, and special projects.

During FY 1988-89, 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 assists the Utilities Division prepare and defend its position in hearings concerning a variety of Utilities Division 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 (the Federal Energy Regulation Commission, Federal Communications Commission, Nuclear Regulatory Commission, Department of Transportation - Office of Pipeline Safety and Federal Railroad Administration) where the Division represents the Commission and protects the State's interests in 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 (both on the state and federal level) which requires the Legal Division to represent the Commission in the courts.

All areas of representation by the Division have increased substantially over the past year. Increases included not only the number of cases before the Commission, but also the size of these cases. FY 1988-89 brought Tucson Electric Power Company before the Commission in an application for an increase in rates. The hearing was held in Tucson and lasted approximately five weeks. Three attorneys, a paralegal and a legal secretary were assigned to this case, with the result that the Legal Division was substantially short-handed during the duration of the hearing in Tucson.

One of the most volatile cases before the Commission in FY 1988-89 dealt with Arizona Public Service Company's dividend policies. This case involved proceedings before the Commission, Superior Court and the Arizona Supreme Court. As a result of this case, rules are in the process of being promulgated regarding holding companies and their affiliated interests. At one time or another during these varied proceedings, all members of the Legal Division were involved with this case.

One area that increased significantly during FY 1988-89 was the Legal Division's representation of the Utilities Division Safety Section. As an example, there were 97 violations of the Underground Facility Law ("Blue Stake cases") which was an increase of over 100% in three years. The Commission's Legal Division plays an active and direct role in advising and representing the Pipeline Safety Group in these cases. Safety enforcement actions frequently result in civil damage cases in Superior Court between the parties. In many instances, the Safety Section staff are subpoenaed to appear at depositions and trials. The Legal Division must represent staff during these time-consuming proceedings.

Examples of the activity federal cases generate for the Legal Division are cases before the Federal Communications Commission ("FCC") and the Federal Energy Regulatory Commission

(FERC) At year's end, the Legal Division was participating in 40 FCC cases and 64 FERC cases. The federal agencies' decisions have great impact on the regulation by the Corporation Commission in Arizona. Noteworthy among FERC cases is the El Paso Gas proceeding. El Paso provides service in New Mexico, Nevada, Arizona and California. Another area of participation by the Commission at FERC is the issue of wholesale electric rates. There are a variety of cases that the Legal Division is participating in regarding this issue.

Various administrative matters also require the involvement of the Legal Division. As an example, all major cases before the Commission require an advisory staff assigned to act as a separate party in order to advise the Commissioner's staff

without violating the ex-parte communications rule.

During FY 1988-89, the Division participated in workshops formulated to help the Commission on other significant aspects of their regulatory responsibilities. One attorney from the Legal Division served on a committee with the Department of Water Resources and Department of Environmental Quality representatives regarding water standards, rules and policies. Another attorney was assigned to a committee concerned with health requirements that cause special financing considerations for small water companies. These committees held workshops and meetings on a continual basis to resolve a variety of matters.



SOUTHERN ARIZONA OFFICE

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 in Tucson.

Workload and achievements have continued to increase in all sections. During FY 1988-89, the Corporations section processed more than 10,000 filings, related documents and other transactions, and collected more than \$534,800 in fees. The office experienced a big jump in the amount of "out-of-state" filings and a noticeable increase in filings from the Phoenix area.

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 23 hearings and issued 49 Opinion and Orders and 28 Procedural Orders 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 1987-88 (Actual), FY 1988-89 (Report Year Actual) and FY 1989-90 (Estimated).

**TABLE 1
REVENUE BY SOURCE**

	Actual 1987-88	Actual 1988-89	Estimate 1989-90
Corporation Filing Fees*	3,938,300	3,952,000	4,200,000
Security and Broker Fees*	3,969,600	4,118,200	4,300,000
Misc. Service Charges*	100,700	101,000	100,000
Utility Assessments**	5,022,500	5,046,000	5,400,000
Pipeline Safety Revolving Fund	45,000	500	1,000
Fines and Forfeitures*	17,900	168,000	150,000
Federal Grant	125,300	153,400	173,200
TOTAL	\$13,219,300	\$13,639,100	\$14,324,200

**TABLE 2
EXPENDITURES BY DIVISION**

	Actual 1987-88	Actual 1988-89	Estimate 1989-90
Administration/Hearing Division	2,028,700	1,788,400	1,827,200
Corporations Division	949,300	1,011,400	1,058,800
Securities Division	1,332,900	1,430,200	1,566,500
Railroad Safety Group (Utilities Division)	384,000	413,600	531,900
Utilities Division	3,661,600	4,293,900	4,569,800
Legal Division	817,900	881,700	852,300
TOTAL	\$9,174,400	\$9,819,200	\$10,406,500

**TABLE 3
EXPENDITURES BY FUND SOURCE**

	<u>Actual 1987-88</u>	<u>Actual 1988-89</u>	<u>Estimate 1989-90</u>
General Fund	4,694,900	4,643,600	4,984,400
Util. Reg. Revolving Fund	4,354,200	5,022,200	5,248,900
Federal Grant	<u>125,300</u>	<u>153,400</u>	<u>173,200</u>
TOTAL	\$9,174,400	\$9,819,200	\$10,406,500

* Deposited in the State General Fund

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

NOTE: General Fund Revenue appropriated by the Legislature for FY 1988-89 was reduced \$75,000 through legislative ex-appropriation in the Spring of 1989. Therefore, the actual amount expended during FY 1988-89 was necessarily less than the estimate shown in the Corporation Commission's 76th Annual Report.



APPENDIX B

ARIZONA PUBLIC SERVICE COMPANY (APS)

L-1345-88-180, Fuel Adjustor Proceeding

On August 3, 1988, a proceeding regarding the annual review of APS' costs and revenues was initiated. This review was expanded on September 24, 1988 to include the necessity of continuing with the fuel adjustor mechanism and the operating incentive plan. Public hearings were held on November 17, 1988, and January 9, 1989.

After extensive hearings on the legal and technical arguments, the Commission issued Decision No. 56450, dated April 13, 1989, which eliminated the fuel adjustor mechanism for APS as well as the operating incentive plan.

U-1345-89-139, Dividend Policy

In Decision No. 56527, dated June 21, 1989, the Commission initiated hearings, during which APS' dividend payment policies were to be reviewed, in order to determine if a limitation or restriction was appropriate. The hearing was initiated out of concern that Pinnacle West (APS' parent) may try to uneconomically extract capital from APS in order to provide capital for the non-utility activities of Pinnacle West.

Settlement regarding this matter was reached among the parties and was adopted by the Commission in Decision No. 56603 dated August 15, 1989. The settlement provided assurance that APS would not increase its dividend above the current level (except if specified emergencies arose), and that the Commission would not initiate a new proceeding regarding this same matter, prior to APS resolving its dispute over capital requirements for its savings and loan subsidiary, MeraBank.

MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (MOUNTAIN BELL)

E-1051-88-146, Rate Review

On June 29, 1988 (Decision No. 56023), the Commission initiated an examination of Mountain

Bell's rates and charges to determine if they continued to be just and reasonable. The case was divided into two phases: an interim rate proceeding and the permanent rate proceeding.

The hearings on the interim phase of the proceeding were held during January 1989. In written testimony, Mountain Bell indicated that there should be an increase in annual revenues of approximately \$51 million. Staff recommended a decrease in annual revenues of approximately \$69 million. Since the full range of issues and recommendations had not been litigated as of the interim hearing, and since investigations were continuing in anticipation of the permanent phase of the hearing, staff recommended that the rates be decreased by an annual amount of \$33.4 million, on an interim basis. Decision No. 56363, dated February 22, 1989, adopted an interim rate reduction of annual revenues in the amount of \$33.4 million.

The permanent phase of the case did not proceed to hearing since the parties in the case reached a settlement regarding the amount of the decrease to be implemented on a permanent basis. The parties recommended that the Commission adopt a settlement to make the interim decrease of \$33.4 million permanent. Other provisions of the settlement included an agreement from Mountain Bell stating that an application requesting a general rate change would not be filed prior to January 1, 1991, and that if an application were filed on that date, the Commission would act promptly on the matter, so that rates could be effective January 1, 1992. In Decision No. 56471, dated May 17, 1989, the Commission adopted the terms of the settlement as recommended, except that the permanent annual decrease was changed to \$37.3 million.

TUCSON ELECTRIC POWER COMPANY (TEP)

U-1933-88-280, Fuel Adjustor Proceeding

On May 8, 1988, staff requested that a proceeding be initiated in which TEP's fuel costs and revenues could be reviewed for recovery from ratepayers.

In Decision No. 56120, it was determined that this matter should be heard in conjunction with TEP's next base rate case. The base rate case was filed by TEP on November 10, 1988. On May 17, 1989, TEP filed a request for an immediate increase in its fuel adjustor rate of 6.5 mills. The parties filed responses to TEP's request. Decision No. 56526 was issued on June 22, 1989, in which TEP was granted an increase in its fuel rate of

2.180 mills per kilowatt hour. Additionally, the decision indicated that the fuel adjustor mechanism would be eliminated so that no additional costs could be included in the mechanism, effective July 1, 1989. The decision to abolish the fuel adjustor was premised, in part, on TEP's admission that it was manipulating the fuel adjustor to fit its own purposes and desires.

CORPORATION COMMISSIONERS SINCE STATEHOOD

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

