

**ARIZONA
CORPORATION
COMMISSION**



79th Annual Report
1990-91

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Phoenix, Arizona 85007

TUCSON OFFICE
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Tucson, Arizona 85701

ARIZONA CORPORATION COMMISSION

THE COMMISSIONERS

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

EXECUTIVE SECRETARY

James Matthews

DIVISION DIRECTORS

Philip R. Moulton, Administration
Beth Ann Burns, Hearing
Joan Adams Moore, Corporations
Dee Riddell Harris, Securities
Gary M. Yaquinto, Utilities
Paul A. Bullis, Legal

**ARIZONA
CORPORATION
COMMISSION
SEVENTY-NINTH
ANNUAL REPORT
JUNE 30, 1991**

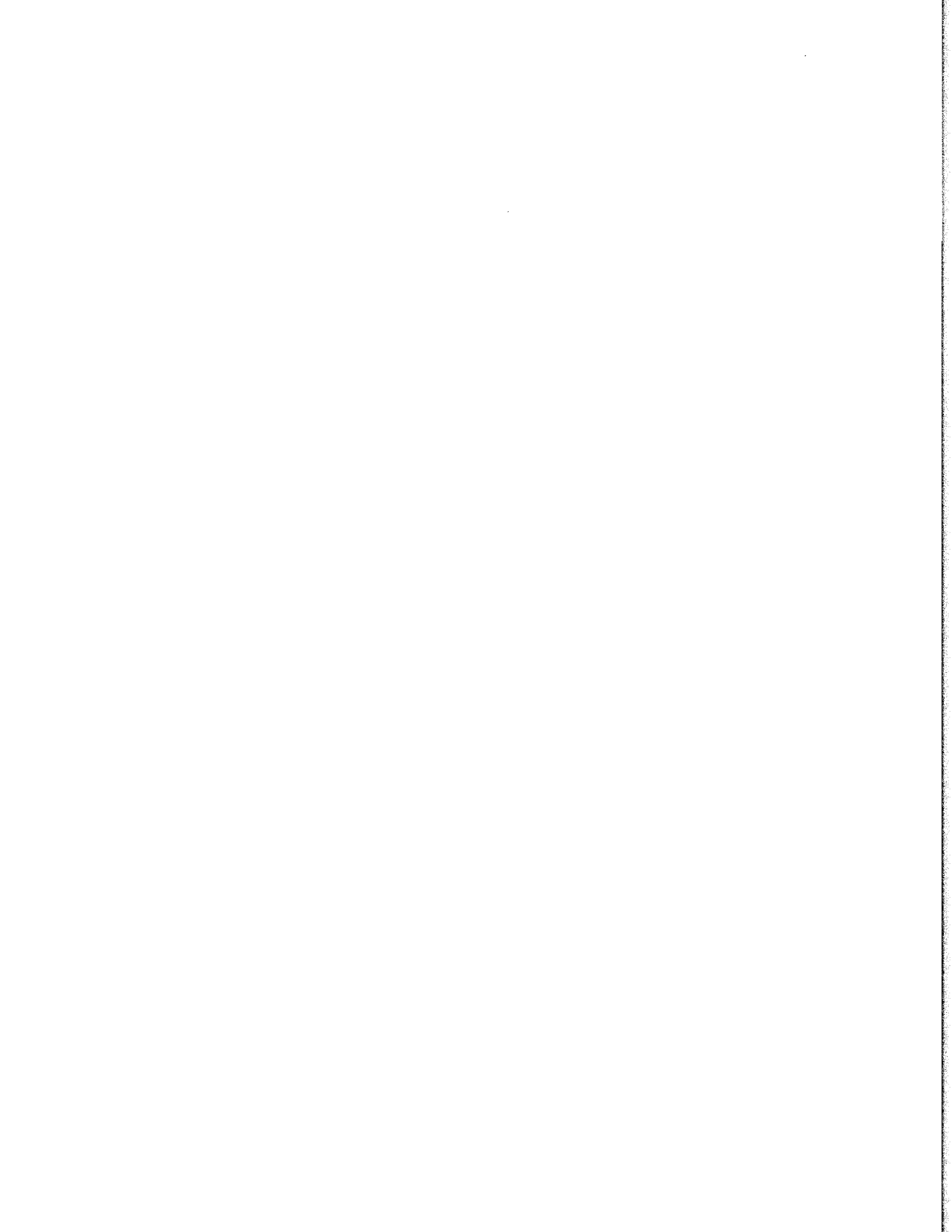


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FOREWORD

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

This Annual Report addresses the transactions and proceedings of the Arizona Corporation Commission during the period July 1, 1990 – June 30, 1991. 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 may be acquired by contacting: Office of the Executive Secretary, 1200 West Washington, Phoenix, Arizona 85007.



COMMISSIONERS

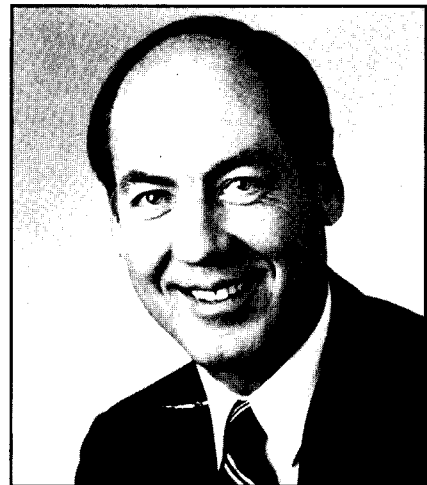
MARCIA WEEKS
Chairman

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 has been elected to a second term to run through January 1997.



RENZ D. JENNINGS
Commissioner

Renz Jennings, an Arizona native, was first elected to the Commission in 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 is past president of the Western Conference of Public Service Commissioners and is Chairman of the Energy Conservation Committee's Subcommittee on Renewables. His current term will expire in 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 Sparten School of Aeronautics in Tulsa, Oklahoma. Commissioner Morgan is a retired Air Force Officer with service in World War II, Korea and Vietnam, and is also a former member of the Commission staff. He was appointed to the American Water Works Association Research Foundation's Public Council on Water Supply Research in 1990. He is a member of the Committee on Water for the National Association of Regulatory Utility Commissioners. His current term will expire in 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 as Legislative Liaison for Governor Bruce Babbitt, as energy policy program director for the National Conference of State Legislators, and as a staff member of the Arizona House of Representatives. 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. §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 serves on the Arizona Disease Control Research Commission and Board of Management of the Phoenix Downtown YMCA. He has written topics relating to government agency management and public health policy.



ADMINISTRATION DIVISION

Philip R. Moulton, Director

The Administration Division plans, coordinates and directs the fiscal and administrative activities necessary to support the Commissioners, Executive Secretary and all Divisions of the Commission. The responsibilities and activities of the Division are carried out by the Business Office. The Division Director also serves as the Deputy Executive Secretary and performs the duties of the Executive Secretary during the incumbent's temporary absences.

The Administration Division supports the Office of the Executive Secretary in supervising and administering the overall activities of the Commission's Divisions and employees. The Office of the Executive Secretary performs many administrative functions in conjunction with the Division. These include: coordination of Legislative activities, preparation of the Open Meeting Agendas and keeping records of all proceedings of the Commission, civic activities, and projects of benefit to the Commission.

Legislative Activities. The Arizona Legislature enacts new laws every year which impact the Commission and the people the agency serves. Laws which affect regulated entities, consumers of regulated services, and corporate Arizona must be monitored and, in some cases, implemented by the Commission. Because of the Commission's broad ranging authority, the Executive Secretary and the Administration Division coordinate all of the Commission's legislative activities in conjunction with each Division. Additionally, the agency's budget is set by the legislature each year. The 1991 legislative session produced the following new laws of interest to the Commission:

Stock exchange; Mortgage related Securities. This Commission sponsored legislation authorized the Securities Division Director to study the feasibility of establishing a stock exchange in Arizona and to raise certain securities registration fees. The Director must submit a report containing recommendations to the Commission, a joint legislative/private sector study commission must provide input, and the Commission must

decide whether or not to proceed with the establishment of an exchange. Should the Commission vote to proceed, and the Securities Director ensures that an exchange is established, the Commission will serve in a continuous oversight capacity of the exchange. Since the exchange will be a private business enterprise, the Commission's role will be purely regulatory in nature. This bill also contains the provisions of the Commission's mortgage related securities legislation which exempts certain securities from registration while preserving the state's right to oversee those types of securities. It also contains technical corrections to last year's Uniform Limited Offering Registration legislation.

Corporation Commission Appeals. Commission decisions regarding rate making or rate design can be appealed by any party to the action to the Court of Appeals. If the Commission alters the decision, the altered decision becomes the ruling on appeal. The Supreme Court will adopt rules to govern this appeals process. In all appeals, the party challenging the Commission's decision must make a "clear and satisfactory showing that the order is unlawful or unreasonable." Except that any party can appeal to the Supreme Court, no other court has jurisdiction to interfere with a Commission rate order. Commission decisions remain in force pending court decisions. This law will become effective at midnight December 31, 1991 in order to give the Supreme Court time to write and adopt rules.

Public Access. A bill was introduced on behalf of the Commission which was unfortunately vetoed by the governor. This bill was sought in response to a request from the business and corporate legal communities to provide greater access to public documents in the Corporations Division at no expense to the taxpayer. This bill would have established surcharges and two funding sources (user fees) which would have financed the purchase of a computer system to provide the following services: 1) Direct, on-line access by any person from a remote computer terminal to public documents; 2) Names of

corporate officers, directors, major shareholders and cross reference capabilities; 3) Electronic imaging of all corporate documents filed; 4) Electronic ordering of copies of corporate files in situations where a user establishes an account with the Commission; and 5) Indexing of corporations by size, type, purpose, and principal place of business.

Open Meeting and Other Proceedings: The Commission meets in five types of forums. In all instances, the activities of the Commission are controlled by the Arizona Open Meeting Law, the Commission's *ex-parte* rule on unauthorized communications, and the Arizona Administrative Procedures Act.

The Commission conducts formal hearings on contested matters such as rate requests, complaints, and securities violations. Evidence is collected at hearing, but no vote is taken. All decisions of the Commission are made in Open Meetings. Open Meetings are conducted after the agenda of the meeting has been made available to the public. In some limited instances, such as legal matters and personnel matters, the Commission may meet in Executive Session. Hearings, Open Meetings, and Executive Sessions, while administrative in nature, are very formal in process. The Commission usually meets prior to its regular open meetings in a more informal Special Open Meeting, referred to as a Working Session. In these publicly noticed meetings, the Commission conducts discussion on the matters to be considered at the regular open meeting. Comments may be received from the public, interested parties, and the staff of the Commission. The Commission also conducts Workshops where issues are discussed. No votes are taken or decisions made at either the Working Sessions or Workshops. The number of meetings of these various types are shown in the Hearing Division's section of this Annual Report.

Civic Activities: Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 1990-91, the Commissioners and employees:

— Contributed \$8,050 to the State Employees Charitable Campaign which supports United Way Agencies, National Health Agencies, International Service Agencies and local non-affiliated agencies.

— Donated \$665 to the American Cancer Society in support of Commission staff who participated in the Annual "Climb the Mountain, Conquer Cancer" event.

— Donated eighteen pints of blood in specially arranged blood drives held at the Commission's facilities.

— Fully supported and actively participated in Environmental improvement activities such as the "Clean Air Force" (car pools, Don't Drive One-in-Five Campaign and bus ridership), and recycling of paper and newsprint.

Projects: The Administration Division, under the guidance of the Executive Secretary is also the primary action office for plans, projects and material of benefit to Commission employees. During FY 1990-91:

— The Commission's Affirmative Action plan was developed. The plan transmitted to the Governor's Office of Affirmative Action, demonstrated that the Commission met overall parity goals but that some protected groups within certain occupational categories were slightly underutilized. Hiring objectives were established to correct these imbalances.

— The Commission continued to fund a "Tuition Assistance" program for its employees. The objectives of the program include: improve job capability, performance and morale; encourage personal growth and development; and provide a source of qualified personnel for advancement as vacancies occur. Eight employees participated in the program during FY 1990-91 at a cost to the Commission of \$1,183. In addition, thirty-five other employees attended hands-on job related training at the local Universities and Junior Colleges at a cost of \$6,288 paid by the Commission.

BUSINESS OFFICE

The Business Office is responsible for providing all accounting, payroll, purchasing, and personnel support for the Commission as well as budget preparation. All but budget preparation is overseen by the business office manager. The Commission's budget is developed

and submitted by the Administration Division Director in coordination with the Executive Secretary and the Directors of the other Divisions of the Commission. Fiscal information related to the budget and expenditures is included in Appendix A.

The Business Office is also the Commission's main point of contact with other state agencies involving business activities. The office works closely with such state entities as the State Treasurer, General Accounting Office, State Personnel Office and the State Purchaser's Office. During FY 1990-91, the Business Office: received and processed \$15,840,000 in revenue to the State Treasurer; issued 377 purchase orders; processed 760 travel claims; received and entered into inventory 255 items; serviced 256 employees through personnel actions and payroll transactions.

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. The major applications of the minicomputer is the Securities Registration and Enforcement System.

During FY 1990-91, the Data Section staff, in conjunction with Securities Division staff and personnel from the Data Center, continued to make improvements to the Securities Division's registration and enforcement system. Divisions of the Commission continued to add microcomputers to both independent and LAN work stations during FY 1990-91. This was in keeping with the Commission's long range goals of providing optimum computer capability and improving operating efficiency.



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, 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 1990-91, the five Hearing Officers in the Division conducted 130 public hearings, encompassing a total of 177 days. A summary of hearings is shown below.

PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1990-91

TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	22
Transfers/Sales	1
Certificates of Convenience and Necessity	20
Orders To Show Cause and Complaints	26
Financing	5
Fuel Adjustment Cases	3

TYPE OF HEARING	NO. OF HEARINGS
Pre-Hearing Conferences	12
Public Comments	27
Rules (new and amended)	6
Adjudications	0
Deletions	0
Revocations	0
Generic Hearings	0
Securities Division	7
Corporations Division	0
Railroad/Safety Group	4
Miscellaneous (oral arguments, motions to compel, etc.)	8
TOTAL	141

Based upon the record evidence presented at public hearings, or 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 1990-91, the Hearing Division prepared a total of 169 recommended orders, 131 for cases involving a hearing and 38 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 proceedings, including: discovery, intervention, the hearing date, filing dates, public notice, and motions. During FY 1990-91, the Hearing Division issued 433 such orders.



CORPORATIONS DIVISION

Joan 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. §§ 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 nominal 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 (non-Arizona) corporation to do business in Arizona may be revoked.

As of January 1, 1991, there were 109,448 corporations transacting business in the State of Arizona, 90,141 domestic and 16,307 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. 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 1990-91 were as follows:

Domestic Articles of Incorporation	11,047
Foreign Applications for Authority	2,426
Domestic Amendments	2,471
Certificates of Good Standing	3,839
Certification of Orders	10,838
Domestic and Foreign Mergers	654

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 it 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 1990-91 this Section processed the following:

Annual Reports	90,504
Delinquency Notices	12,189
Revocations	15,542

RECORDS SECTION

The Records Section is responsible for maintaining all corporation documents filed with the Commission. All corporate files are public and if not obtained corporate files may be viewed by the public at the Customer Service Center. Photocopies of documents can be obtained 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 1991 exceeded 1000 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 1990-91, the Records Section filmed over 600,000 documents; accepted service of process on behalf of 461 corporations; and sold over 290,000 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 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

Dee Riddell Harris, Director

The Securities Division is responsible for administration of the Securities Act of Arizona (the Act) and the Rules and Regulations promulgated thereunder. The Division is comprised of four sections: Corporation Finance, Enforcement, Financial Analysis, Law & Policy, and Trading & Markets.

CORPORATION FINANCE SECTION

The Corporation Finance Section is involved in the review of applications for exemption from the registration provisions of the Act, in registering securities under the Act, and in drafting amendments to the Act and the Rules and Regulations. The Section participates in early stages of the capital formation process through its prefiling conferences with issuers.

During FY 1990-91, there were 4,033 securities offerings registered, while 131 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 meets 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. The staff participated in 50 prefiling conferences last year.

TRADING & MARKETS SECTION

This Section is responsible for administration of licensing procedures for enforcement of the dealer and salesman provisions of the Arizona Securities Act. The Section conducts on-site examinations of dealers to ensure compliance with the Act. The Arizona Corporation Commission is authorized to deny, suspend, or revoke a dealer's or salesman's registration, to assess fines and to order rescission or restitution. During FY 1990-91, the Trading & Markets Section processed 39,233 salesmen

registrations and 5,013 transfers of such salesmen between dealers. The Section also processed 899 dealer registrations.

ENFORCEMENT SECTION

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

The Arizona Corporation Commission is granted the authority by A.R.S. § 44-2032 to issue an Order to Cease and Desist, apply to the Superior Court of Maricopa County for an injunction, transmit evidence to the Attorney General who may petition the Superior Court of Maricopa County for the appointment of a conservator or receiver, and transmit evidence to the Attorney General who may directly institute, or cause to be instituted, criminal proceedings.

During FY 1990-91, the Section initiated thirty-seven investigations and had a total of eighty-nine cases under investigation. It instituted four administrative proceedings and transmitted evidence to the Attorney General which resulted in five civil cases involving thirty three defendants and eleven criminal cases involving sixteen 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 120 administrative subpoenas were issued in connection with investigations of suspected failures to comply with the Act. These subpoenas resulted in taking fifty-seven examinations under oath.

FINANCIAL ANALYSIS SECTION

The Financial Analysis Section is staffed by certified public accountants who provide accounting and financial analysis support to the other four sections. The accounting staff is called upon to review financial statements submitted by applicants for registration of securities or as dealers. The CPA's also play an integral role in developing cases for trial. Such cases, to a large degree, involve the findings and conclusions the CPA's reach as a result of their investigative accounting efforts.

ADMINISTRATIVE MATTERS

The Legislature considered and passed House Bill 2451 during the 1991 General Session. The Bill, subsequently signed into law by the

Governor, authorized a study into the feasibility of establishing a stock exchange in Arizona and provided for the funding and regulation of such an exchange. The Bill also provided for the creation of one or more public reference rooms containing information about public companies.

LAW & POLICY SECTION

The responsibility of the Law & Policy Section include: The No-Action (interpretive) Letter Program, rulemaking, supervision of the duty officers and drafting legislation. In the policy area, the Section conducts investor awareness programs. Additionally, the Law & Policy staff work with the business and financial communities on capital formation issues.



UTILITIES DIVISION

Gary M. Yaquinto, Director

The Utilities Division monitors the operations of 460 utilities providing service within the State of Arizona. The Division reviews utility company 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 § 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.

Arizona utility 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. Utility owned 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 investigators conduct similar efforts for emergency situations in their respective areas. Compliance specialists ensure that utilities obey Arizona law and Commission directives.

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

Investor-owned electric utilities	5
REA electric cooperatives	11
Gas utilities	9
Telecommunications companies	31
Water utility companies	364
Sewer companies	37
Irrigation companies	3
TOTAL	460

ACCOUNTING AND RATES SECTION

The Accounting and Rates Section provides independent analyses of the financial and ratemaking requests filed by utilities for Commission approval. These requests include proposals for rate changes and new tariff provisions, requests for financing authority, fuel adjustor 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 Section members or supplement the work of Section staff.

The Section staff provide 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 ratemaking which impact on water, wastewater, electric, gas and telecommunications utilities.

While a large portion of the Section's resources during FY 1990-91 were devoted to water industry matters, Accounting and Rates staff also participated in a number of proceedings involving major gas, electric, and telecommunications utilities. Staff members were actively involved in the review and examination of issues pertaining to the increasingly important area of utility diversification. Section staff provided assistance in analyzing Arizona Public Service Company, Southwest Gas Corporation, Southern Union Gas Company rate cases.

Section staff is currently revising and strengthening its fuel cost monitoring procedures; and building discounted cash flow models for use in cost of capital determination for rate cases.

ECONOMICS AND RESEARCH SECTION

The Economics and Research Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities. The staff uses a variety of computer models and quantitative techniques to assist in the evaluation. Recommendations are presented to the Commission through Staff reports and sworn testimony.

During the past year, the Section staff evaluated rate designs for Tucson Electric Power Company

and Arizona Public Service Company. In addition, the Section presented testimony on excess capacity for Arizona Public Service Company, on conservation programs for Arizona Public Service Company, and on the sale of Arizona Public Service Company's Cholla Unit 4, a coal-fired power plant, to PacifiCorp.

The Commission must review public service corporations' offers of new services and changes in rates, terms, and conditions of existing services. The Economics and Research Section evaluated approximately one hundred such tariff filings during the past year and made formal recommendations to the Commission in each case. The majority of these tariff filings concerned introduction of new telecommunications services and changes to existing telecommunications services. Other tariff filings included discounted electric rates to attract new business to Arizona and adjustments in natural gas rates to reflect changes in the cost of gas.

As part of the Commission's resource planning for electric utilities, the Section staff submitted a report describing historical trends in electricity, conservation measures and alternative technologies such as solar power. The section prepares its own load forecasts as an independent reference point against which to evaluate utility forecasts. Section staff also analyze electric utility production costs, assess the cost-effectiveness of solar power technologies. Finally, the Section is conducting a two year, before and after study of the effects of various residential conservation measures on about 150 hours in the Phoenix area.

A major share of the Section's efforts in the past year was devoted to analyzing the long-range resource plans filed by Arizona's four largest electric utilities in compliance with the Commission's recently approved resource planning rules. The Section staff also began preparing a comprehensive report on electric utility resource planning based on its own independent analysis of future electricity demands and least cost supply options.

The Economics and Research Section continues to develop and expand its analytic and computer modeling capabilities in support of the Commission's policy research needs.

ENGINEERING SECTION

The Engineering Section conducts technical reviews of all Commission regulated utilities to assure compliance with accepted service, safety, maintenance, performance and regulatory standards. The Engineering Staff monitors and/or conducts on-site investigations of 364 water companies, 37 wastewater (sewer) companies, 16 electric companies, and 3 irrigation companies.

The Engineering Staff assists the Consumer Services Section with the technical aspects of complaints that it receives from utility customers. The Engineers also accompany Consumer Services personnel on investigations of such complaints. The Engineering Staff also investigates complaints and incidents involving regulated utilities that result in service outages, property damage or injuries.

The Engineering Section assists the Accounting and Rate Section in the processing of rate case applications, financing applications, purchase power and fuel adjusters, and other financial cases. The Engineering Staff performs plant inspections to determine whether utility plant is used and useful and to establish reconstruction cost new values to be used in rate proceedings. The Engineering Staff is also responsible for developing cost of service studies, primarily for water and wastewater companies.

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

The Electrical Engineers 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.

In the area of telecommunications, the Engineering Section reviews tariff filings and evaluates facilities comprising the Telecommunication network in Arizona. The Engineering Staff also assisted in the review of alternative calling plans for the Phoenix and Tucson metropolitan areas.

In addition, the Engineering Section maintains a computer assisted design mapping service to produce detailed utility service area maps for use by the Commission and the general public.

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 company meter. The Group is also responsible for 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, thirteen major intrastate gas utility operations, three intrastate hazardous liquid pipelines, and 1,517 master meter operations.

The Group inspected thirteen major intrastate gas utility operators, three intrastate hazardous liquid pipeline operations, three intrastate hazardous liquid pipeline operations and two interstate hazardous liquid pipeline operators. The Group completed 914 comprehensive inspections and 321 specialized inspections of master meter gas distribution systems.

During the past year, the Group investigated 169 reported violations of the Underground Facilities Law, and 107 notices of violations were issued and \$12,250 in fines was collected. The

Group investigated 57 incidents reported by operators of pipeline facilities.

The Pipeline Safety Group has provided 17 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 location and leak detection equipment to assist them in the operation of their systems. During FY 1990-91, the Group also conducted seventeen Blue Stake training classes.

The Pipeline Safety Group has presented a training seminar "Federal DOT Drug Testing Requirements" to all operators of natural gas and hazardous liquid pipelines.

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

A Pipeline Safety Group representative presented a paper on the effect on high temperature on natural gas piping at the 11th Plastic and Gas Pipe Symposium held in San Francisco, California.

Railroad Safety Group

The railroad safety group enforces track, freight car, motive power equipment, carrier operation practices, hazardous material transportation and other railroad safety standards of the Federal Railroad Administration (FRA). The Group is also responsible for 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 1990-91, the Group's six inspectors inspected 9,305 miles of track, 11,530 freight cars, 689 locomotives, 401 rail-highway crossings and 151 industrial track facilities. The Group also made 158 operation practices inspections and fifty-three inspections of manufacturers that ship and receive hazardous materials by rail.

The Group investigated ninety-three railroad accidents and forty-one complaints received from other governmental agencies and the public. In addition, Group 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 1990-91, the Railroad Safety Group completed a research project on warning devices for rural rail-highway grade crossings where no electric power is available. Staff then designed reflective devices that will be installed at 233 rural crossings over the next three years. Funding for the project is being provided by the Federal Highway Administration.

The Commission administers the State's share of monies dedicated to improving rail-highway crossing safety devices. Since the inception of this federal/state program in July 1977, \$18,075,729 in federal funds and \$1,359,728 in state funds have been spent or encumbered to improve safety warning devices on 303 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 twenty 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 Group staff participated in four public awareness gatherings during FY 1990-91.

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 1988-89, 1989-90, and 1990-91. While the actual number of calls increased for 1990-91 the 1990-91 table reflects a new method of recording calls.

understanding the Commission rules, meeting filing requirements, and making system improvements.

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 conducts Public Comment Meetings. When a water company

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Water Companies	3,505	3,408	2,006
Electric Companies	4,122	2,878	1,740
Gas Companies	1,833	939	516
Communications Companies	4,830	3,290	2,287
Sewer Companies	387	611	205
TOTAL	14,677	11,126	7,754

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Service Inquiries	2,071	1,715	1,256
New Service Inquiries	1,144	1,056	570
Billing Inquiries	4,408	3,505	2,389
Deposit Inquiries	954	767	347
Other Inquiries	6,100	4,083	3,192
TOTAL	14,677	11,126	7,754

During the past year, the Consumer Services Section in addition to responding to and resolving complaints and inquiries, has administered the small water company assistance program, public comment meetings and mediation proceedings. The Section also participated in the rate case staff report preparation.

Small Water Company Assistance Program. The Small Water Company Assistance Program was developed to assist small water companies in resolving issues that have created problems for them in the past. During FY 1990-91, the small water assistance team initiated and conducted twenty on-site visits to small water companies targeted as possible candidates for assistance. In addition, team members have 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

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, Section staff arranges for a Public Comment Meeting. These Public Comment Meetings have been beneficial in establishing a dialogue between companies and the customers. During FY 1990-91, Section staff conducted thirteen 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 eighteen mediation proceedings of which fifteen 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, various computer programs and self-improvement courses.

During FY 1990-91, the Division set up a computer database to catalog all library items. Currently, all periodicals are online and cataloging other material is expected to be completed within the next year. The library received and processed 1,739 items during the last fiscal year.

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. § 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. Regardless of the dollar amount of gross operating revenues, all rate changes require approval of the Commission in an Open Meeting. 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 hearing include a review of past Commission actions, a review of documents on file with the Commission, an audit of the books and records on the utility, discussions with utility personnel 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 had several major proceedings during FY 1990-91 which are individually described in Appendix B.

REVENUES

The Division collects an annual assessment from public service corporations, as established by A.R.S. §§ 40-401 and 40-491.01. The total revenue collected by assessment during FY 1990-91 was as follows:

	UTILITIES REV. FUND*	RUCO**	TOTAL
Electric	\$4,206,839	\$ 705,601	\$4,912,440
Telephone	1,412,952	273,475	1,686,427
Gas	578,258	136,559	714,817
Water	97,260	24,978	122,238
Sewer	14,904	3,956	18,860
Cellular Tele- phone Service	94,927	0	94,927
TOTAL	\$6,405,140	\$1,144,569	\$7,549,709

NOTE: Assessment rates were computed as follows:

*0.1587 percent of intrastate total gross operation revenue

**0.0687 percent of intrastate residential gross operating revenue



LEGAL DIVISION

Paul Bullis, Chief Counsel

The Legal Division was established in July of 1983 under A.R.S. § 40-106 to provide legal representation to the Corporation Commission in performance of all of its powers and duties, except for matters pertaining to 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 fall into five categories: Commission dockets, Federal regulatory dockets, litigation, other administrative matters, and special projects. A brief description of these categories is listed below:

Commission Dockets: Utility companies throughout the state apply to the Commission for approval before undertaking certain activities such as the provision of service to the public, the modification of service territory or the implementation of rate increases. The Commission is also authorized to exercise continual review over the operations of public service corporations and to act when necessary to further the public interest.

Legal Division representation in these matters is varied and includes representing the Utilities Division in administrative hearings before the Commission, assisting in the formulation of the Utilities Division position, advising the Commissioners on legal issues, advising the Consumer Services Section on both docketed and undocketed matters involving consumer complaints, and advising the Commissioners on action that may need to be taken as a result of possible violation of the rules and regulations governing certain public service corporations.

Federal Dockets: The Legal Division represents the Corporation Commission before various federal agencies that have interstate or concurrent regulatory authority in the following

areas: electric, gas, nuclear energy, railroads, pipelines and telecommunications. These agencies include the Federal Communications Commission, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, the Department of Transportation - Office of Pipeline Safety, and the Federal Railroad Administration.

Litigation: The Legal Division represents the Commission before a variety of courts and currently has cases before municipal courts, county Superior Courts, the State Court of Appeals and the State Supreme Court, as well as before various federal district and appeals courts.

Administrative Matters: The Legal Division represents the Corporations Division in matters arising out of responsibilities given the Corporation Commission under Arizona Corporations Law. Such matters include the filing of Articles of Incorporations, Certificates of Disclosure, and Annual Reports which must be submitted to the Commission by every corporation doing business within the State of Arizona. The Legal Division counsels the Corporation Commission in the legalities of miscellaneous matters such as the Open Meeting Law, guidelines and procedures, ex-parte communications, filing requirements and a variety of similar matters.

Special Projects: The Legal Division participates in the revision of all rules that pertain to the Corporations Division and the Utilities Division, including the Pipeline and Railroad Safety Groups. The Division also participates in numerous committees and workshops to assist the Commissioners in other significant aspects of their regulatory responsibilities.

All areas of representation by the Division increased during FY 1990-91 over already-high levels. The Commission participated in seventy-six Federal Communication Commission cases

and forty-nine Federal Energy Regulatory Commission cases. The Legal Division also devoted substantial resources to representing the State's interest before the Federal Energy Regulatory Commission at the Century Power Company wholesale rate regulation hearing. This hearing, which was initiated by a complaint filed by the Commission, concluded in early FY 1990-91 and was followed by extensive briefing. Century Power Corporation is a former subsidiary of Tucson Electric Power Company but is not regulated by the Corporation Commission since it engages only in the wholesale distribution of power. Tucson Electric Power purchases a substantial amount of power from Century for its retail customers in Arizona. A recommended decision and order was issued by the Administrative Law Judge during FY 1990-91, which recommends granting substantially all the relief sought by the Commission. This relief would include the refunding by Century to Tucson Electric Power of over \$100 million in excessive charges. A final decision by the Federal Energy Regulatory Commission is expected during FY 1991-92, although it is expected that the final decision will be appealed to federal court. This case is a good example of the complex Federal matters requiring substantial time, commitment and expertise of the Legal Division.

During FY 1990-91, the Division's resources were also directed to ever-escalating levels of Commission hearings. The largest case (in both time and personnel) confronting the Legal Division was and still is the rate review of Arizona Public Service Company ("APS"). APS filed application for a rate increase in January, 1990. The issues associated with this rate proceeding have been divided into five categories: excess capacity prudence review of Palo Verde, Palo Verde outages, financial condition of the company and deferrals on Palo Verde Unit 3. A hearing on the application began in February 1991, and continued for five months. The extraordinary length of the hearing, longest ever for the Commission, was due to the complexity of the issues and the massive amounts of evidence presented.

Issues surrounding Tucson Electric Power also consumed substantial resources. Not only did Tucson Electric Power file a rate application

during FY 1990-91, it also faced involuntary bankruptcy petitions filed by several of its creditors. Division attorneys were involved in prolonged negotiations with the company which resulted in a settlement of the issues in the rate application, as well as in representation of the Commission before the Federal Bankruptcy Court. If the company is ultimately unsuccessful in having the involuntary bankruptcy petitions withdrawn or dismissed, it is expected that a bankruptcy proceeding will last approximately two years and require a substantial commitment of Division resources.

The Division also devoted considerable time and resources to addressing the rate application of US West Communications filed during FY 1990-91. Intensive analysis and negotiations resulted in a successful resolution of the issues in the application, which resolution was presented to the Commission in an abbreviated hearing.

All the major cases before the Commission require an advisory staff to be assigned to act as a separate party in order to advise Commissioners and Commissioners' staff without violating the ex-parte communications rule. Thus, in each of the above instances, in addition to the need for legal staff as counsel for Utilities Division staff, additional staff is assigned to advise the Commissioners.

Resource Planning is an important area of concern to the Commission, and impacts not only the utilities it regulates but also the future of the resources and environment of the State. Utilities Division Staff is represented by the Legal Division in all the resource planning proceedings and also is assisted in rulemaking by the Legal Division. The Commission has set into action a plan to oversee and guide the use of resources in the state. During FY 1990-91, the Commission held its first generic resource planning hearings wherein the participating utilities and other energy providers gave their views on how to best balance the interests of the demand to be met, reliability of service to be achieved and applicable state and federal rules regarding safety and the environment. The Legal Division's role in this process is significant and will be increasing during FY 1991-92.



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 1990-91, the Corporations section processed more than 1,700 filings of Articles of Incorporation and 7,600 Annual Reports filings. The section also collected more than \$600,000 in fees. The office continued to experience an increase in the amount of "out-of-state" filings and increases 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 several hearings 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.

Note: The Tucson Office will relocate to the new State Office Building at 400 West Congress during FY 1991-92.



APPENDIX A

Fiscal 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 five sources: the State General Fund, the Utility Regulation Revolving Fund, the Arts Trust Fund, the Securities Regulatory and Enforcement Fund, and Federal Grants. The first three require legislative appropriation. The Administration, Hearing, Securities and Corporations Divisions as well as the Railroad Safety Group of the Utilities Division receive funds from the General Fund. In addition to General Funds, the Corporations Division receives a small support reimbursement from the Arts Trust Fund and the Securities Division receives a portion of the fees it collects through the Securities Regulatory and Enforcement 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 Grants 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 1989-90 (Actual), FY 1990-91 (Report Year Actual), and FY 1991-92 (Estimated).

**TABLE 1
REVENUE BY SOURCE**

	Actual 1989-90	Actual 1990-91	Estimate 1991-92
Corporation Filing Fees*	\$3,987,000	\$3,986,600	\$4,000,000
Security and Broker Fees*	3,656,600	4,808,900	4,800,000
Miscellaneous Service Charges*	106,600	84,400	100,000
Utility Assessments**	5,632,500	6,405,100	5,647,500
Pipeline Safety Revolving Fund	126,000	0	0
Fines and Forfeitures	205,300	99,000	100,000
Securities Regulatory & Enforcement Fund***	26,900	773,400	1,100,000
Arts Trust Fund****	730,300	994,100	1,000,000
Federal Grant	160,300	137,800	145,000
TOTAL	\$14,632,900	\$17,289,300	\$16,892,500

**TABLE 2
EXPENDITURES BY BUDGET PROGRAM**

	Actual 1989-90	Actual 1990-91	Estimate 1991-92
Administration & Hearing Divisions	\$1,793,000	\$1,765,000	\$1,861,800
Corporations Division	1,010,500	1,066,400	1,063,600
Securities Division	1,509,500	2,190,300	2,652,800
Railroad Safety Section (Utilities Division)	417,600	466,300	492,900
Utilities Division	4,369,700	5,065,100	4,805,100
Legal Division	813,900	976,000	987,400
TOTAL	\$9,913,600	\$11,529,100	\$11,863,600

**TABLE 3
EXPENDITURES BY FUND SOURCE**

	<u>Actual 1989-90</u>	<u>Actual 1990-91</u>	<u>Estimate 1991-92</u>
General Fund	\$4,705,000	\$4,850,600	\$4,861,800
Arts Trust Fund	25,000	28,700	25,800
Securities Regulatory & Enforcement Fund	0	608,700	1,033,500
Utility Regulation Revolving Fund	5,023,300	5,903,300	5,797,500
Federal Grant	<u>160,300</u>	<u>137,800</u>	<u>145,000</u>
TOTAL	\$9,913,600	\$11,529,100	\$11,863,600

- * Deposited in the State General Fund
- ** Deposited in the Revolving Fund for Utilities and Legal Divisions
- *** Deposited in the Securities Regulatory and Enforcement Revolving Fund
- **** Deposited in the Arts Trust Fund

NOTE: General Fund Revenue appropriated by the Legislature for FY 1990-91 was reduced \$145,000 based on an ex-appropriation action in March of 1990. Therefore, the actual amount expended during FY 1988-89 was necessarily less than the estimate shown in the Corporation Commission's 78th Annual Report.



APPENDIX B

Arizona Public Service
Docket No. U-1345-90-269
Decision No. 57459

Arizona Public Service Company (APS) filed an application to sell Cholla Unit 4, a 350 MW coal-fired generating unit, to PacifiCorp for \$221 million. As part of the proposed agreement APS would purchase power from PacifiCorp during the summer, obtain additional transmission lines from PacifiCorp, provide transmission lines to PacifiCorp, and would construct several peaking power plants for PacifiCorp. The proposed agreement would be likely to benefit APS' ratepayers since APS' revenue requirements would be less under the agreement than they would be without the agreement.

Following a hearing, the Commission Staff and APS reached a settlement which was brought before the Commission for its approval. The settlement provided, among other things, that PacifiCorp pay the capacity charges for power plants for APS and that PacifiCorp study the possibility of substituting renewable resource technology for gas-fired peaking plant capacity to be built for PacifiCorp by APS. The Commission approved the agreement on July 11, 1991.

Southern Union Gas Company (Southern Union)
Docket Nos. U-1240-90-051
Rate Review
Decision No. 57396, Dated May 24, 1991

In February, 1990, Southern Union filed an application for an increase in rates of \$2,130,778. The evidentiary portion of the hearing commenced on November 13, 1990.

One of the main issues in the case was Southern Union's natural gas procurement practices, purchased gas costs and the level of unaccounted for gas volumes for the three-year period ending December 1989.

In Decision No. 57396, the Commission found that an increase in operating revenues of \$2,134,129 was fair and reasonable. This revenue

increase was based on a return on a fair value rate base of 6.34 percent, which allowed for a return on equity of 12 percent. In terms of major rate design changes, the decision eliminated the residential declining block rate and implemented a flat commodity charge for the residential customer class.

Additionally, the decision set an acceptable unaccounted for loss of 3.50% of total annual gas throughput to be incorporated into the Purchased Gas Adjustment ("PGA") mechanism. The decision also required Southern Union to perform a study of the reasons for its unaccounted for gas levels and submit the results with its 1991 PGA filing.

Southwest Gas Company (Southwest)
Docket No. U-1551-89-102
Docket No. U-1551-89-103
Decision No. 57075, Dated August 31, 1990

Southwest Gas Company filed an application on April 20, 1989, for an increase in rates for natural gas service provided by its Central and Southern Arizona divisions. The Company requested an increase in revenues of \$30,848,851 for the Central division and \$16,561,154 for the Southern division. The Commission approved an increase of \$7,429,000 for the Central division and \$414,000 for the Southern division. The revenue increase was based on a return on fair value rate base of 7.35% for the Central division, and 7.82% for the Southern division. The cost of equity for the Company was determined by the Commission to be 12.5%.

Important issues in the case included the reasonableness of Southwest's gas procurement practices and the appropriate treatment of pipe replacement costs incurred to replace faulty pipes in large portions of the distribution systems. The Commission disallowed a portion of the remedial capital expenditures related to the pipe replacement program in Southwest's Central division. The Commission determined it would not be fair or equitable to make ratepayers pay for all of the remedial costs

due to management's decision to knowingly purchase a system with significant defects. In addition, the Commission deferred rate recognition of the costs in the Southern division until the next general rate case. The Decision also ordered an audit of Southwest's gas procurement practices and purchased gas costs.

Southwest proposed to eliminate the existing flat rate commodity charge for several of its customer classes and return to a declining block rate structure. The Commission rejected the declining block rate structure and instead approved a flat commodity charge for each class.

Further, the decision required Southwest to include in its next general rate filing; 1) proposed rate design and guidelines for a low-income discount program for residential customers, and 2) proposed consolidation rate schedules

to facilitate rate uniformity between the two divisions.

US WEST

Docket No. E-1051-88-306

Decision No. 57173

This docket was concerned with telephone pricing in the metropolitan Phoenix and Tucson areas. As the Phoenix and Tucson metropolitan areas grew, archaic telephone pricing patterns persisted, resulting in "long distance" charges for calls within a metropolitan area. The Residential Utility Consumer Office, US WEST local communities, citizens, and others presented proposed revisions to the metropolitan pricing structure that were to be applied by US WEST in its next rate case. The Commission ordered US WEST to include several pricing structures, including metropolitan wide flat rate calling, in its next rate case filing.



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

