

ARIZONA CORPORATION COMMISSION

80th ANNUAL REPORT
1991 - 1992

PHOENIX OFFICE
1200 West Washington
Phoenix, Arizona 85007

TUCSON OFFICE
400 West Congress
Tucson, Arizona 85701



ARIZONA CORPORATION COMMISSION

THE COMMISSIONERS

Marcia Weeks, Commissioner
Renz D. Jennings, Chairman
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 Bullis, Legal

ARIZONA CORPORATION COMMISSION

80th Annual Report

July 1, 1991 - June 30, 1992



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1200 West Washington
Phoenix, Arizona 85007

Southern Arizona Office
400 West Congress Street
Tucson, Arizona 85701

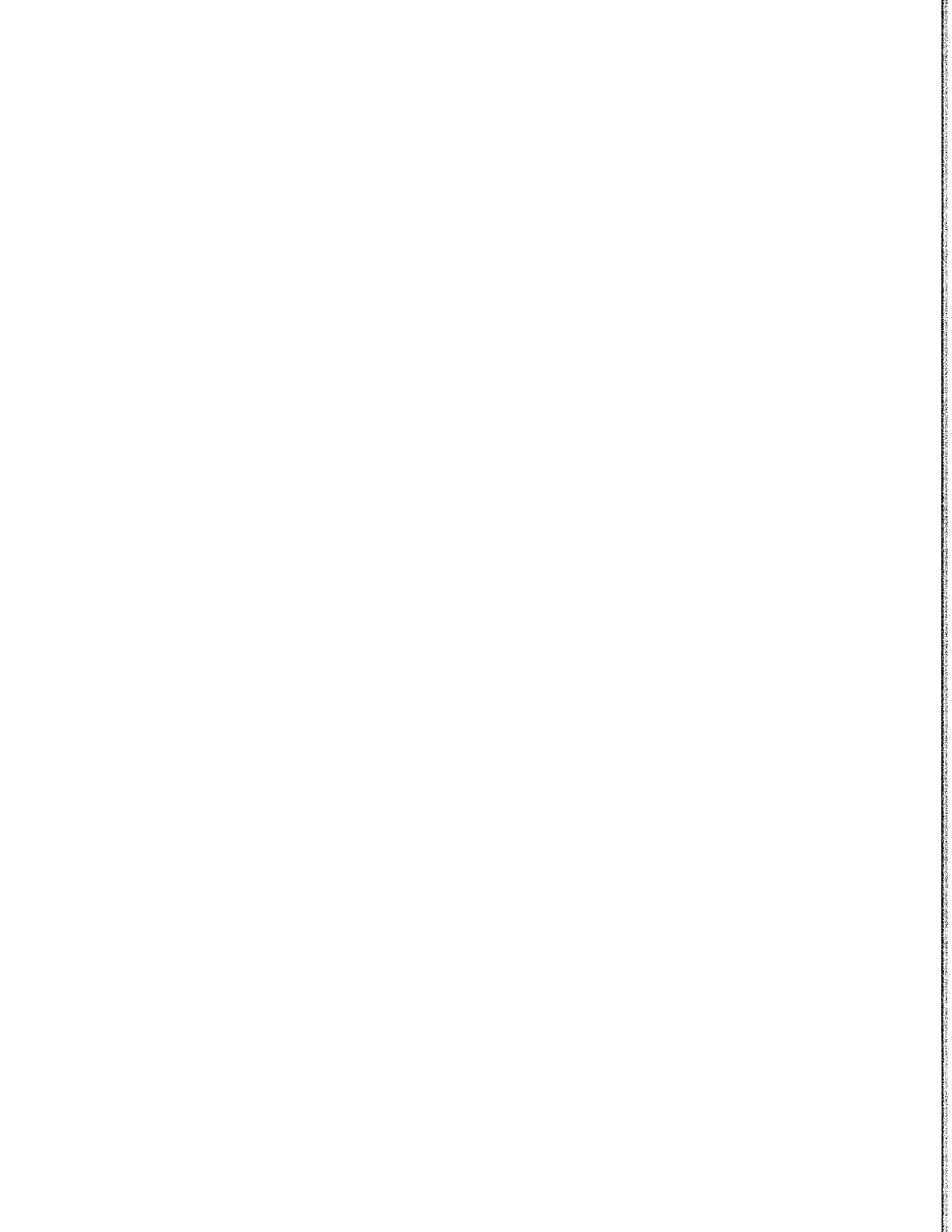


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FOREWORD

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, 1991 – June 30, 1992. As required by Arizona Revised Statutes, this report was transmitted to the Governor of the State of Arizona, the President of the Senate and the Speaker of the House of Representatives.

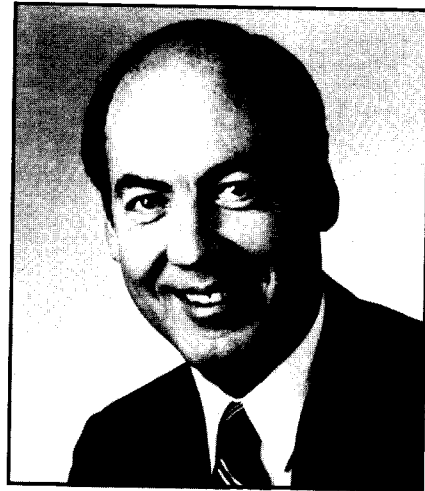
Additional copies may be acquired by contacting: Office of the Executive Secretary, 1200 West Washington, Phoenix, Arizona 85007.



COMMISSIONERS

RENZ D. JENNINGS
Chairman

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 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 1997.



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 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 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. He is a graduate of the Rocky Mountain Program for Senior Executives in Public Management.

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 has served as Chairman of the National Association of Regulatory Utility Commissioners' Subcommittee on Executive Directors, 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. He has co-authored *A Manual on Commission Organization and Operations* to be published by the National Regulatory Research Institute.



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 Administration Division coordinates 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 1992 legislative session produced the following new laws of interest to the Commission.

Public Access. This bill was the result of several years' work 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 establishes surcharges and two funding sources (user fees) which will finance 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 capability; 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.

Limited Liability Company Act. This new law allows one or more persons to form a new type of entity in Arizona – a limited liability company (LLC) – by filing Articles of Incorporation with the Corporations Division. It allows out-of-state (foreign) limited liability companies to register here as well. The new law also allows companies providing professional services to form as an LLC.

Cooperatives; rate filing. Allows, but does not require, the Commission to change the rates of member-owned nonprofit cooperative corporations without a public hearing.

The Commission was also involved with other legislative actions including:

Utility Regulation. Though *not* passed into law, an attempt was made to drastically change the duties and organizational structure of the Commission as it pertains to utility regulation. This proposal would have shifted the Utilities Division to the control of the Governor, the Legal Division to the Attorney General, and the Hearing Division to the Governor's Department of Administration. It also would have provided for automatic rate increases and rates under bond.

Financial Planners. In response to the request of the investing public, particularly the retired community, for some protection from unscrupulous financial planners, legislation was proposed that would have placed regulatory oversight of this area under the duties of the Securities Division. The financial planners legislation did not pass. The Commission expects this issue to be addressed again in the 1993 Session.

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 1991-92, the Commissioners and employees:

- Contributed \$7,750 to the State Employees Charitable Campaign which supports United Way Agencies, National Health Agencies, International Service Agencies and local non-affiliated agencies.
- Donated \$1,080 to the American Cancer Society in support of Commission staff who participated in the Annual "Climb the Mountain, Conquer Cancer" event.
- Donated twenty 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 1991-92:

- The Commission's Affirmative Action plan was updated. 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.

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 1991-92, the Business Office: received and processed \$17,931,000 in revenue

to the State Treasurer; issued 425 purchase orders; processed 802 travel claims; received and entered into inventory 220 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 include 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 1991-92, major revisions in the Commission's Data Processing plans were commenced. The Securities Division began to prepare for the transfer of their Securities Registration and Enforcement System from the in-house minicomputer to their NOVELL Local Area Network. This should be completed early in FY 1992-93. Also, with the passage of the Corporation Division's Public Access legislation and the pending acquisition of a new minicomputer, the primary emphasis on minicomputer operations will shift from the Administration Division to the Corporations Division. Therefore, personnel assigned to the Data Processing Section and \$114,000 in funding were transferred to the Corporations Division at the end of FY 1991-92.



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 1991-92, the six Hearing Officers in the Division conducted 165 public hearings, encompassing a total of 152 days. A summary of hearings is shown below.

PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1991-92

TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	29
Transfers/Sales	13
Certificates of Convenience and Necessity	20
Orders To Show Cause and Complaints	25
Financing	14
Fuel Adjustment Cases	2

TYPE OF HEARING	NO. OF HEARINGS
Pre-Hearing Conferences	14
Public Comments	25
Rules (new and amended)	4
Adjudications	1
Deletions	2
Revocations	0
Generic Hearings	0
Securities Division	9
Corporations Division	0
Railroad/Safety Group	3
Tariff	1
Miscellaneous (oral arguments, motions to compel, etc.)	<u>3</u>
TOTAL	165

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 1991-92, the Hearing Division prepared a total of 169 recommended orders, 102 for cases involving a hearing and 67 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 1991-92, the Hearing Division issued 331 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 10-1002 through 10-1099).

Any organization which operates as a corporation in the State of Arizona is required to file its Articles of Incorporation and an Annual Report with the Commission. Any significant changes to Articles in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed in this Division. All filings are public record and available for inspection. Copies of documents may be secured for a 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 June 30, 1992, there were 111,103 corporations transacting business in the State of Arizona; 94,529 domestic and 16,574 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.

CORPORATE FILINGS SECTION

The Corporate Filings 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 Corporate Filings Section during FY 1991-92 were as follows:

Domestic Articles of Incorporation	11,472
Foreign Applications for Authority	2,403
Amendments	3,737
Certificates of Good Standing	5,416
Certification of Orders	5,127
Domestic and Foreign Mergers	655

ANNUAL REPORTS SECTION

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

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

The Commission is authorized by A.R.S. §§ 10-095 and 10-1052 to revoke a domestic corporation's Articles of Incorporation or a foreign corporation's authority to transact business in

Arizona if specific filing requirements are not met. Sixty days prior to revocation, the Commission must issue a notice of delinquency to the corporation. All delinquencies and revocations are handled by the Annual Reports Section.

In FY 1991-92, this Section processed the following:

Annual Reports	78,556
Delinquency Notices	9,134
Revocations	13,252

RECORDS SECTION

The Records Section is responsible for maintaining all corporation documents filed with the Commission. All corporate files are public record. Microfilmed corporate files may be viewed by the public at the Customer Service Counter. Hard copies of documents can be purchased at a nominal 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 1991-92 exceeded 2000 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.

During FY 1991-92, the Records Section filmed over 530,000 documents; accepted service of process on behalf of 422 corporations; and sold over 300,000 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 five 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 pre-filing conferences with issuers.

During FY 1991-92, there were 4,783 securities offerings registered, while 179 issuers were granted exemptions from the registration requirements of the Act.

The Division continues to make its staff available to issuers through pre-filing 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 pre-filing conferences last year.

Small corporate issuers are eligible to register securities under the Uniform Limited Offering Registration (ULOR) program. This program has been designed to allow small companies to have affordable access to the public capital markets. During FY 1991-92, the Division responded to 705 requests for information about this program.

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 1991-92, the Trading & Markets Section processed 42,493 salesman registrations and 4,508 transfers of such salesmen between dealers. The Section also processed 966 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 1991-92, the Section initiated 40 investigations and had a total of 104 cases under investigation. It instituted 12 administrative proceedings and transmitted evidence to the Attorney General which resulted in 8 civil cases involving 32 defendants and 10 criminal cases involving 21 defendants.

The Securities 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 138 administrative subpoenas were issued in connection with investigations of suspected failures to comply with the Act. These subpoenas resulted in the taking 90 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.

LAW & POLICY SECTION

The responsibilities 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 and SEC and NASAA Small Business Conferences.

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 feasibility study was conducted and on March 31, 1992, the Arizona Stock Exchange commenced operations in Phoenix. The Exchange is an all-electronic call market, which currently has available for trading approximately 3,600 equity securities (with approximately 30 Arizona-based companies and a large number of additional companies with a strong Arizona presence). The Bill also provided for the creation of one or more public reference rooms containing information about public companies. Such a public reference room has been established at 234 N. Central Avenue, Suite 425. It contains information about a large number of public companies which have Arizona securities holders. This information is available to investors, brokers, securities analysts, financial journalists, students and any other members of the public who may be seeking information about public companies. The public reference room is the only source of public information about certain small Arizona-based companies.



UTILITIES DIVISION

Gary M. Yaquinto, Director

The Utilities Division monitors the operations of 449 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.

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 has had several major proceedings during FY 1991-92. These are individually described in Appendix B.

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 six sections which fulfill the staff's responsibilities: Accounting and Rates, Economics and Research, Engineering, Safety, Consumer Services and Administrative Services.

The Division oversees the following number of utilities:

Investor-owned electric utilities	5
REA electric cooperatives	11
Gas utilities	10
Telecommunications companies	30
Water utility companies	355
Sewer companies	37
Irrigation companies	<u>1</u>
TOTAL	449

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-term 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 interacts with outside expert consultants, who provide assistance or supplement the work of the staff.

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

While a large portion of the Section's resources during FY 1991-92 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 and Tucson Electric Power Company and US WEST rate cases.

The Section is in the process of establishing procedures and processes to implement the "affiliated interest rules" which will become applicable to certain public service corporations regulated by the Commission. The rules were adopted by the Commission in March 1990, but implementation was delayed due to litigation filed by the State Attorney General. The litigation was successfully challenged by the Commission in the Supreme Court and the Attorney General certified the rules. In May 1992, the Commission adopted its "rate case management" rules. These rules establish time limits for the Commission's processing of rate applications in order to establish reasonable rate application management measures to improve the efficiency and predictability of the rate review process. The time limits for processing a rate application are based on the utility's proposed revenues and vary from four months to twelve months after a utility's application is found to be sufficient.

ECONOMICS AND RESEARCH SECTION

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

A major share of the Sections efforts during FY 1991-92 involved demand side management

activities carried out by electric utilities. Section staff evaluated demand side management projects proposed by Tucson Electric Power Company, Arizona Public Service Company, and Arizona Electric Power Cooperative, approving those projects for which the benefits would be likely to exceed the costs or which would be likely to educate consumers on cost effective conservation measures. Among the demand side management programs now in operation are those for commercial sector lighting efficiency, energy efficiency in new home construction, energy efficient chillers, environmental and energy education for students, and consumer education brochures.

As a result of the Commission's 1991 resource planning order, the Economics and Research Section is coordinating the work of two task forces. One task force is addressing environmental externalities and regional economic impacts associated with new resources for providing electric energy services and the other task force is evaluating the efficacy of sliding scale hookup fees to encourage energy efficiency in buildings. Both task forces will report to the Commission by January 1, 1993. In addition, the Section analyzed the relative costs of electric line extensions and stand-alone photovoltaic systems and conducted a workshop on how to inform consumers about trade-offs between grid power and photovoltaic systems.

Also during the last year, Staff provided testimony on rate design issues and conservation programs for Navopache Electric Cooperative and Trico Electric Cooperative. Staff also conducted extensive analyses of US WEST's proposed caller identification service and related CLASS services.

The Commission must review public service corporation's 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 introduction of new services to provide natural gas for compression as a vehicle fuel.

The Section continued its work on a two year, before and after study of the effects of various residential conservation measures on about 150 houses in the Phoenix area. Analyses should be completed during the Fall of 1992. Finally, the Economics and Research Section continues to use several large computer models to help it evaluate electric utility costs and to forecast the demand for electricity.

ENGINEERING SECTION

The Engineering Section conducts technical reviews of all Commission regulated utilities (except gas, which is done by the Pipeline Safety Group) to assure compliance with accepted service, safety, maintenance, performance and regulatory standards. The Engineering Staff monitors and conducts on-site investigations of 355 water companies (399 separate systems), 37 wastewater (sewer) companies, 30 telecommunications companies, 16 electric utilities, and 1 irrigation company. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage, and injuries.

The Engineering Section assists the Consumer Services Section with the technical aspects of complaints that are received from utility customers. The engineers accompany Consumer Services personnel on investigations of such complaints. Assistance is also provided to the Consumer Services Section in the processing of certificate of convenience and necessity (CC&N) applications for all regulated utilities.

The Engineering Section assists the Accounting and Rates 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 (RCN) values to be used in rate proceedings. Staff is also responsible for developing cost of service studies.

The electrical engineers provide continued surveillance of the operation and maintenance of all generating and transmission resources within Arizona. This includes the nation's largest nuclear plant, the Palo Verde Nuclear Generating

Station, located approximately 50 miles west of Phoenix. The engineers also assist the Commission in its role as a member of the Power Plant and Line Siting Committee to determine the environmental compatibility of any newly proposed generating station and electrical transmission lines.

In the area of telecommunications, the telecommunications engineer reviews tariff filings, CC&N applications, and evaluates facilities comprising the telecommunication network in Arizona.

In addition, the Engineering Section maintains a computer aided design (CAD) program for producing 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, intrastate natural gas transmission/distribution pipelines, interstate hazardous liquid pipelines and master meter gas systems 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 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 three interstate natural gas transmission pipelines, three interstate hazardous liquid pipelines, twelve major intrastate gas utility operations, one intrastate natural gas transmission pipeline, three intrastate

hazardous liquid pipelines, and 1,720 master meter natural gas operations.

During FY 1991-92, the Group inspected twelve major intrastate gas utility operators, one intrastate gas transmission operator, two interstate gas transmission operators, three intrastate hazardous liquid pipeline operators, three interstate hazardous liquid pipeline operations. The Group completed 808 comprehensive inspections and 560 specialized inspections and 432 follow up inspections of master meter natural gas distribution systems.

Also during FY 1991-92, the Group investigated 76 reported violations of the Underground Facilities Law, 65 notices of violations were issued and \$5,320 in fines was collected. The group received 259 notices of incidents from pipeline operators, and pipeline operators shut off gas service to 104 master meter gas systems requiring repair.

The Pipeline Safety Group provided 36 training workshops during the year for operators of master meter gas systems. The group has a program where master meter operator personnel who have attended the training classes may use pipe location and leak detection equipment to assist them in the operation of their systems. During FY 1991-92, the group also conducted three Blue Stake training classes.

The Pipeline Safety Group and the U.S. Department of Transportation, Transportation Safety Institute presented three industrial training seminars. The Group also assisted with training classes taught at the Transportation Safety Institute in Oklahoma City, Oklahoma.

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

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 1991-92, the Railroad Safety Group filled its three vacant Inspector positions. These well-qualified people are already assisting various short line railroads with personnel training in the areas of train handling, grade crossing signal maintenance and repair and track/roadbed maintenance.

In addition, the Group's six inspectors inspected 265 miles of track, 5,879 freight cars, 232 locomotives, 988 rail-highway crossings and 50 industrial track facilities. The Group also made 201 operation practices inspections and 524 inspections of manufacturers that ship and receive hazardous materials by rail. The Group investigated 33 railroad accidents and 42 complaints received from other governmental agencies and the public. In addition, Group staff was joined by the FRA Western Regional Office in presenting a railroad safety seminar to all railroads operating in Arizona.

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, \$20,687,103 in federal funds and \$1,962,113 in state funds have been spent or encumbered to improve safety warning devices on 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 1991-92.

Shipment of hazardous materials by rail is an area of increasing concern to the Group. During FY 1991-92, an Inspector position was reclassified so that its primary responsibility is to keep abreast of new developments in this rapidly changing area while ensuring safe transportation of hazardous commodities in the State.

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.

During the past year, the Consumer Services Section, in addition to responding to and resolving complaints and inquiries, has administered the Consumer Services Assistance Program, public comment meetings and mediation proceedings. The Section also participated in the preparation of rate case staff reports.

Public Comment Meetings. In an effort to provide customers an opportunity to voice their concerns and opinions on the rates or quality of service of the public utilities serving them, the Consumer Services Section conducts Public Comment Meetings. When a utility files for a rate review, the Consumer Services Section monitors all customer letters and comments. They investigate service problems and respond to all customer service complaints. During FY 1991-92, Section staff conducted 22 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 14 mediation proceedings resolving the disputes in each case.

The following tables list a comparison of inquiries handled by the Consumer Services Section during FY 1989-90, 1990-91, and 1991-92.

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Water Companies	3,408	2,006	4,331
Electric Companies	2,878	1,740	3,096
Gas Companies	939	516	1,178
Communications Companies	3,290	3,287	3,325
Sewer Companies	611	205	94
TOTAL	11,126	7,754	12,024

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Service Inquiries	1,715	1,256	2,989
New Service Inquiries	1,056	570	801
Billing Inquiries	3,505	2,389	3,410
Deposit Inquiries	767	347	988
Other Inquiries	4,083	3,192	3,836
TOTAL	11,126	7,754	12,024

ADMINISTRATIVE SERVICES SECTION

In addition to providing general administrative support, the Administrative Services Section designs and maintains databases; designs and maintains computerized filing systems; provides research; provides a system for distribution of mail and internally generated documents; provides support service for copying and binding of all Division testimony and filings; processes all Open Meeting items; generates the assessment program from which the Utilities Division and Legal Division's funds are provided; maintains the annual reports, tariffs and other filings for all regulated utilities; maintains the Division Compliance Program; and maintains the Division Library.

Compliance. Through a computerized database designed and established by the Administrative Services Section, staff monitored 239 compliance items and generated 793 compliance documents. At the end of the FY 1991-92, there were 307 compliance items pending and 172 compliance items completed.

Other items processed by the Administrative Services Section during FY 1991-92 include:

Staff Reports -	103
Testimony -	19
Open Meeting items -	188
Central File items -	1,097
Telephone calls -	85,640
Copies -	459,404

Library. The Administrative Services Section also maintains a multimedia 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, computer programs and self-improvement courses. During the past year, staff designed a computer database to catalog all library items and currently, all periodicals are on-line.

During FY 1991-92, the library processed and received 1,699 items.

Docket Control Center. In Fiscal Year 1980-81, the Commission requested and obtained legislative approval to establish a docket control function to ensure the integrity and security of the official Commission records. The Docket Control Center was officially established in 1981, operating under the Office of the Executive Secretary. In July 1990, the responsibilities of the Docket Control Center were transferred to the Utilities Division.

The Docket Control Center 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. The Docket

Control Center also assists the public and staff in retrieving the files and transcripts of cases for use in research.

Effective October 1, 1991, a new computerized case management system for processing all dockets was designed and implemented by staff. Major activities accomplished during FY 1991-92

include the following:

Applications for Hearings Processed -	440
Filings Docketed and Distributed -	5,060
Research Activities/Assisting Public -	6,050
Case Management System	
Maintenance Actions -	14,747
Daily Updates of Pending Actions -	8,887

Annual Assessments. 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 1991-92 was as follows:

	UTILITIES REV. FUND*	RUCO**	TOTAL
Electric	\$3,463,742	\$ 501,759	\$3,965,501
Telephone	1,363,025	233,326	1,596,351
Gas	504,260	110,372	614,632
Water	110,017	29,948	139,965
Sewer	17,397	4,793	22,190
Cellular Tele- phone Service	71,335	0	71,335
TOTAL	\$5,529,776	\$ 880,198	\$6,409,974

NOTE: Assessment rates were computed as follows:

*0.1535 percent of intrastate total gross operation revenue

**0.0586 percent of intrastate residential gross operating revenue

Open Meetings. The Commission conducts Open Meetings on a regularly scheduled basis for the purpose of decision making. During FY 1991-92, the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Wtr/ Irr	Sewer	Tel/ Comm	RR	Other	Total
Rates	5	1	57	2	1			66
Financing	5		22					27
Fuel Adjustors		2	1	2				5
Tariffs	9	5	14		103			131
Certificates*	4	1	33	2				40
Grade Crossings						19		19
OSC		11	5					16
Complaints	1		10	5	8			24
Other	8	6	26	4	4	2	3	53
TOTAL	34	25	169	13	116	21	3	381

*New, Extensions, Transfers



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 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 either has pending or has recently concluded 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, including the United States Supreme Court.

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. During FY 1991-92, the following rule-making proceedings were either initiated or ongoing: rulemaking related to customer owned pay telephones; rulemaking amending utility depreciation rules; rulemaking adopting rate application; management processes; amendments to the Commission's railroad safety and pipeline safety rules, including amendment of rules related to construction of underground facilities; and, rulemaking related to the regulation of public utility companies with unregulated

affiliates. In addition to participating in the rulemaking proceedings, the Legal Division has been responsible for representing the Commission in litigation that has occurred following the rulemakings. In particular, both the Railroad Safety and affiliated interest rulemakings resulted in litigation during FY 1991-92. Litigation will continue to require the devotion of Legal Division resources on an ongoing basis.

The demands upon the Division's resources continued to escalate during FY 1991-92 over the high levels experienced in previous years. Virtually all of the major utilities in the State had applications pending before the Commission at some point during FY 1991-92.

The largest case (in both time and personnel) confronting the Legal Division since its inception was finally concluded during FY 1991-92. Arizona Public Service Company ("APS") filed an application for a rate increase in January, 1990. The issues associated with the case were divided into five categories: excess capacity, prudence of Palo Verde, Palo Verde outages, financial condition of the company and deferrals on Palo Verde Unit 3. Hearings 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. The hearing was followed by voluminous briefing by the parties. The case was ultimately settled after extensive negotiations. The Commission finally resolved the case by approving the settlement, as modified, in December 1991.

Issues surrounding Tucson Electric Power Company ("TEP") continued to consume substantial resources during FY 1991-92. The Commission's complaint against Century Power Corporation, the former TEP subsidiary, remained pending at the Federal Energy Regulatory Commission ("FERC") throughout the fiscal year. Meanwhile, TEP teetered on the edge of bankruptcy. The rate application filed by TEP in September 1990 was the subject of detailed review and intensive negotiation, in conjunction with the considerations of the involuntary bankruptcy petitions that had been filed against TEP. The rate application was finally settled, with the Commission approving the rates on an interim basis in October 1991. The Commission made the rates permanent in December, after TEP had

managed to have the bankruptcy petitions dismissed. Subsequently, the Legal Division's resources have been devoted to the series of financing applications, intended to complete TEP's financial restructuring. The financing matters extended throughout FY 1991-92.

Other major proceedings to which the Legal Division resources were devoted during FY 1991-92 include: the US West Communications rate application, which commenced in January 1991 and concluded during FY 1991-92; Southwest Gas Corporation's rate application for its Southern Arizona Division, filed during FY 1990-91 and concluded in February 1992; and the acquisition of Arizona's second largest natural gas distribution company, Southern Union Gas Company, by another Arizona public service corporation, Citizens Utilities.

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 Commissioner's 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 Legal Division personnel are assigned to advise the Commissioners.

Resource Planning continued to be an important area of concern to the Commission, as it impacts not only the utilities the Commission regulates, but also the future of the resources and environment of the State. The Commission's efforts with respect to Resource Planning matured further during FY 1991-92 and promise to require considerable time and effort from the Legal Division in the future. The first generic resource planning hearings were held during FY 1990-91. FY 1991-92 saw this process continued, with the issuance of a Commission Decision in October 1991, which established a task force for the purpose of identifying and quantifying costs to be included in the total societal costs of planned generation additions. The Decision also established a task force to examine issues related to flexible hook-up fees and prescribed numerous guidelines for the utilities' use in evaluating resource planning questions. The resource planning effort will be an ongoing one into the indefinite future. As such, significant commitments of time and personnel will be required from Legal Division to support the effort.



SOUTHERN ARIZONA OFFICE

As noted in several areas of this Annual Report, the Corporation Commission maintains a Southern Arizona Office 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 Hearing Officer from the Hearing Division are located in Tucson.

Workload and achievements continued to increase in all sections. During FY 1991-92, the Corporations Section processed more than 1,700 filings of Articles of Incorporation and 7,900 Annual Reports. The section also collected more than \$600,000 in fees. The office continued to experience an increase in all types of services to Southern Arizona business entities.

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 conducts hearings on matters of importance to residents and utilities located in Southern Arizona. In addition, the incumbent performs many liaison functions within the Southern Arizona Area.

The position was vacant during a significant portion of the year. A new Hearing Officer was hired in late FY 1991-92 and activities have returned to normal.

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 was relocated 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, the Corporation 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 1990-91 (Actual), FY 1991-92 (Report Year Actual), and FY 1992-93 (Estimated).

**TABLE 1
REVENUE BY SOURCE**

	Actual 1990-91	Actual 1991-92	Estimate 1992-93
Corporation Filing Fees*	\$3,968,600	\$3,999,900	\$4,500,000
Security and Broker Fees*	4,808,900	5,413,100	5,500,000
Miscellaneous Service Charges*	84,400	73,600	100,000
Utility Assessments**	6,405,100	5,529,800	5,783,700
Pipeline Safety Revolving Fund	0	10,000	50,000
Fines and Forfeitures	99,000	533,800	400,000
Securities Regulatory & Enforcement Fund***	773,400	1,286,900	1,100,000
Arts Trust Fund****	994,100	761,900	800,000
Federal Grant	137,800	172,200	201,200
TOTAL	\$17,289,300	\$17,781,200	\$18,434,900

**TABLE 2
EXPENDITURES BY BUDGET PROGRAM**

	Actual 1990-91	Actual 1991-92	Estimate 1992-93
Administration & Hearing Divisions	\$1,765,000	\$1,827,900	\$1,944,700
Corporations Division	1,066,400	1,030,500	1,145,500
Securities Division	2,190,300	2,729,600	2,604,600
Railroad Safety Section (Utilities Division)	466,300	432,200	332,000
Utilities Division	5,065,100	4,615,400	4,924,400
Legal Division	976,000	985,300	934,900
TOTAL	\$11,529,100	\$11,620,900	\$11,986,100

**TABLE 3
EXPENDITURES BY FUND SOURCE**

	<u>Actual 1990-91</u>	<u>Actual 1991-92</u>	<u>Estimate 1992-93</u>
General Fund	\$4,850,600	\$4,883,500	\$4,941,800
Arts Trust Fund	28,700	25,700	26,000
Securities Regulatory & Enforcement Fund	608,700	1,111,000	1,059,000
Utility Regulation Revolving Fund	5,903,300	5,248,500	5,658,100
Federal Grant	<u>137,800</u>	<u>172,200</u>	<u>201,200</u>
TOTAL	\$11,529,100	\$11,620,900	\$11,886,100

- * 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 1991-92 was reduced \$105,300 based on an ex-appropriation action in March of 1991. Therefore, the actual amount expended during FY 1991-92 was necessarily less than the estimate shown in the Corporation Commission's 79th Annual Report.



APPENDIX B

Arizona Public Service
Docket Nos. U-1345-90-007 and
U-1345-89-162
Decision No. 57649

On June 30, 1989, Arizona Public Service Company (APS) filed an application (Docket No. 1345-89-162) for an extension of the present Palo Verde 3 accounting order, Decision No. 55939, and on January 11, 1990, APS filed an application for a permanent increase in electric rates. As this was the largest and most time-consuming application ever filed with the Commission, the rate application was segregated into three phases with separate hearings held for each phase. The three phases required 75 hearing days, commencing on February 19, 1991, and concluding on July 19, 1991. A Settlement Agreement was reached between staff and APS in November 1991. The Settlement Agreement included a 5.2 percent annual increase in rates (\$66.5 million) and a two-year rate moratorium.

In addition, the "interim" revenues collected pursuant to Decision Nos. 55228 and 55931 were no longer deemed interim. Palo Verde-related assets totaling \$407 million (after tax) were also ordered to be written-off to common equity.

APS, in Decision No. 57459, also agreed to allocate to ratepayers 100 percent of the gain from the sale of the Cholla 4 unit which further reduced its necessary increase in rates.

Southwest Gas Company
Docket No. U-1551-90-322
Decision No. 57745

On November 7, 1990, Southwest Gas Company (Southwest) filed an application for an increase in rates for natural gas service provided in its Southern Arizona division. The Company requested an increase in revenues of \$21.1 million. The Commission approved an increase of \$8,321,950. The revenue increase was based on a return on fair value rate base of 7.75 percent. The cost of equity for the Company was determined by the Commission to be 11.75 percent.

Important issues in the case included pipe replacement costs due to leakage problems with certain sections of the distribution system containing Aldyl A pipe. The Commission disallowed a portion of the capital expenditures related to the pipe replacement program. Allowed pipe replacement costs included 28 percent of the pipe to be replaced which was found to be "betterment" related and 50 percent of the remedial work related to the pipe replacement.

In addition, a new low-income residential assistance program was authorized. Southwest was ordered to evaluate the feasibility and cost effectiveness of a customer class load study for its Arizona operations.

Tucson Electric Power Company
Docket Nos. U-1933-90-270,
U-1933-90-274, and
U-1933-91-109
Decision No. 57586

On September 21, 1990, Tucson Electric Power Company (TEP) filed an application for an increase in rates. The Company requested an increase in revenues of \$50,455,000 as well as an order allowing it to defer certain costs associated with the ownership and operation of Springerville Unit 2.

The Commission staff and TEP executed an "Agreement of Settlement and Stipulation" on September 19, 1991, later revised through a supplement dated October 10, 1991, wherein it was agreed that: 1) TEP's fair value rate base was approximately \$1,201 million, including 45 percent of the Springerville Unit 2 generating unit; 2) an increase of \$71,024,000 in gross revenues was warranted based on a fair value rate base return of 7.87 percent (the increase was deemed interim in nature and subject to refund based upon the withdrawal or dismissal of an involuntary bankruptcy petition filed by a small group of TEP creditors before December 31, 1991); and 3) the temporary surcharges authorized in Decision Nos. 57156 and 57261 were terminated effective October 15, 1991.

TEP was ordered to recognize a disallowance of \$75 million related to Irvington coal conversion costs and a reduction of \$175 million in the book value of Springerville Unit 2. TEP was also ordered to not initiate a general rate change before January 1, 1993. TEP was further ordered to prepare a report of the diversification, investment and divestment activities undertaken by TEP from 1980 through 1988. The Settlement Agreement was approved by the Commission on October 11, 1991.

TEP was successful in getting a dismissal/withdrawal from its involuntary bankruptcy on December 31, 1991. The Commission, in Decision No. 57674, dated December 31, 1991, made the previously approved interim rates permanent.

US WEST Communications
Docket Nos. E-1051-91-004,
E-1051-90-067,
E-1051-91-145, and
E-1051-91-146
Decision No. 57462

On January 4, 1991, in Docket No. E-1051-91-004, US West filed an application for approval of a

general increase in rates in the metropolitan Phoenix and Tucson areas. This application was consolidated with a prior filing made by the Company in Docket No. E-1051-90-067 regarding adjustment of depreciation accrual rates and reserve. The Company requested a cumulative increase of \$197,726,270.

A settlement between Commission staff and US West was arrived at on June 21, 1991, agreeing upon the following: 1) a revenue increase of \$78,825,000 to enable US West to earn a 7.98 percent rate of return on fair value rate base, 2) US West will convert to flat rate calling in the Phoenix and Tucson metropolitan areas before September 30, 1992; and 3) US West and staff will not initiate any general change in rates before July 15, 1993. The agreement also provided that the \$78,825,000 revenues would enable US West to recover construction costs and revenue losses associated with the metropolitan area flat rate restructure and to accelerate US West's capital investment program for the rural service area. The Commission approved the Settlement Agreement on July 15, 1991 in Decision No. 57462.



CORPORATION COMMISSIONERS SINCE STATEHOOD

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

