

MISSION

"To exercise exclusive state regulatory authority over public service corporations (public utilities) in the public interest; to grant corporate status and maintain public records; to ensure the integrity of the securities marketplace; and to foster the safe operations of railroads and gas pipelines in Arizona"

Arizona Corporation Commission

Annual Report

1995-96



1200 West Washington
Phoenix, Arizona 85007



THE COMMISSIONERS

Renz D. Jennings, Chairman
Marcia Weeks, Commissioner
Carl J. Kunasek, Commissioner

EXECUTIVE SECRETARY

James Matthews

DIVISION DIRECTORS

Philip R. Moulton, Administration
Jerry Rudibaugh, Hearing
Joan Adams Moore, Corporations
Dee Riddell Harris, Securities
Gary M. Yaquinto, Utilities
Paul Bullis, Legal

Main Office
1200 West Washington
Phoenix, Arizona 85007

Services:

Commissioners
Executive Secretary
Administration
Hearing
Utilities
Legal

Adjunct Offices
1300 West Washington
Phoenix, Arizona 85007

Services:

Corporations
Securities

1400 West Washington
Phoenix, Arizona 85007

Services:

Securities

Southern Arizona Office
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Tucson, Arizona 85701

Services:

Corporations
Hearing
Utilities

ARIZONA CORPORATION COMMISSION

84th Annual Report
1995-96



ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007



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, 1995 - June 30, 1996. 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.

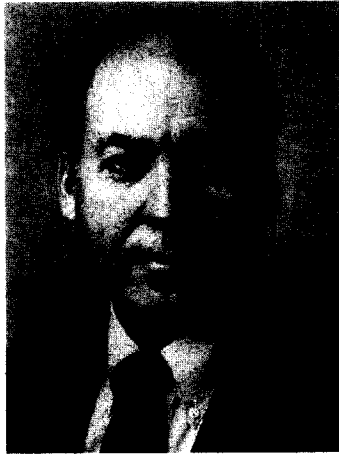
Additional copies may be acquired by contacting: Office of the Executive Secretary, 1200 West Washington, Phoenix, Arizona 85007

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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 in November 1984. He is currently serving in his third term which ends in January 1999.



MARCIA WEEKS
Commissioner

Marcia Weeks is a resident of Phoenix and was first elected to the Commission for a six-year term beginning January 1985 and has served as Chairman three times. 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.



CARL J. KUNASEK
Commissioner

Carl Kunasek was elected Commissioner in November 1994 for the term beginning January 1995. He received a Bachelor of Science from Creighton University, Omaha, Nebraska in 1955 and has been an Arizona resident since 1961. He was appointed by President Bush and confirmed by the U.S. Senate to be Commissioner of the Navajo and Hopi Relocation Commission from 1990 - 1994. He was a member of the Arizona State Senate from 1983 - 1989 where he served as President of the Senate 1987 - 1989. He also served in the Arizona House of Representatives from 1972 - 1982. His current term runs through January 2001.



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 Harvard University Program for Senior Executives in State and Local Government.

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 is past Chairman of the National Association of Regulatory Utility Commissioner's Subcommittee on Executive Directors. He is a member of the North American Securities Administrators Association Disclosure Reform Task Force. He is a member of the Arizona Board of Respiratory Care Examiners and has served on the Arizona Disease Control Research Commission as well as the Board of Management of the Phoenix Downtown YMCA. He has written on topics relating to government agency management and public health policy. He has co-authored A Manual on Commission Organization and Operations published by the National Regulatory Institute.



Philip R. Moulton
Director



ADMINISTRATION DIVISION

Mission: To provide the executive leadership and decision-making authority for the timely resolution of matters coming before the Commission; to plan, coordinate and direct the administrative and fiscal activities necessary to support the Commissioners and all the divisions of the Commission.

The Administration Division is composed of the three elected Commissioners and their staffs, the Executive Secretary's Office and the administrative functions which provide the fiscal and administrative services necessary to support all divisions of the Corporation Commission. The Division Director oversees the administrative and fiscal functions and also serves as the Deputy Executive Secretary, performing the duties of the Executive Secretary during the incumbent's temporary absences.

The Executive Secretary's staff performs many administrative functions in conjunction with the Division. These include: preparation of the Open Meeting Agendas and keeping records of all proceedings of the Commission, coordination of legislative activities, civic activities, and projects of benefit to the Commission.

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.

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.

NEW LAWS RELATING TO UTILITIES

Water Company Study Committee

H2191- Chapter 207

A Joint Legislative Study Committee on the viability of small water systems is established. The Committee is to report by December 31, 1996, on: the ability of small water systems to comply with and recover through rates water quality testing requirements, as well as many other issues that involve not only the Commission, but also ADEQ and ADWR. The Commission is represented on the committee.

Telecommunications Committee

H 2321 - Chapter 98

The Joint Legislative Study Committee on competitive telecommunications services gets three more years of life — through 1998. The Commission is represented on the Committee.

Public Service Franchise; Hearing

H 2345 - Chapter 336

The Commission may act on an application WITHOUT A HEARING on CC&N applications for pay phone providers; AOS providers; and resellers.

Electric Industry Competition Study

H 2504 - Chapter 276

A Joint Legislative Study Committee on electric industry competition. A report is due by the end of 1997. The Commission is represented on this Committee.

Power Plant & Line Siting Committee

S 1261 - Chapter 168

Authorizes the Commission to deny a Certificate of Environmental Compatibility issued by the Power Plant and Transmission Line Siting Committee and modifies the Committee's membership composition, reducing membership from 20 to 11.

Tax; Property Tax Compromises

H 2374 - Chapter 100

Authority of county supervisors to compromise property taxes that are not enough to be worth collecting is expanded to include interest and penalties on the unpaid tax as well.

Telephone Solicitation

H 2175 - Chapter 330

A "solicitor" is required to provide a registration statement to the Secretary of State that includes: scripts, outlines, or presentations; the value of premiums offered; name and address of "solicitor" and each principal, etc. Sellers are required to disclose certain information at the beginning of a solicitation. The bond requirement is increased from \$25,000 to 100,000.

NEW LAWS RELATING SECURITIES

Securities Litigation

S 1383 - Chapter 197

Numerous and substantive changes in laws governing securities litigation which directly affect the Securities Division enforcement actions. The changes include: limit on type of conduct that is actionable as securities fraud under racketeering statute; people involving in misleading securities registration statements can be sued; person offering misleading prospectus is liable to buyer, controlling persons are jointly and severally liable, stipulations to waive compliance with law are

void, joint and several liability is limited for damages to judgements where the judge or jury determines that the person recklessly or knowingly broke the law; sanctions for abusive litigation; limit on damages in private actions; etc.

Regulatory Action; State Agencies

S 1056 - Chapter 102

Civil penalties imposed by specified state agencies are to be transferred to the State Treasurer for deposit into the general fund. The Bluestake Fund and Securities Regulatory and Enforcement Funds will be appropriated beginning in 1998. Requires agencies to adopt licensure time-clock rules by December 1998 (affects the Securities Division).

Investment Managers

H 2319 - Chapter 109

Repeals the requirement that to retain state licensure, an investment advisor who has discretionary authority over client money or securities, but no custody of them, must file a balance sheet with the Corporation Commission at the end of his/her fiscal year.

NEW LAWS RELATING TO CORPORATIONS

Corporations; Corrections

H2084 - Chapter 35

Corrections/changes made to an omnibus bill regarding the Arizona Business Corporation Act which took effect January 1, 1996. Some of the changes made in the legislation include: Articles of Incorporation no longer are required to recite liability limits for directors; articles may carry provisions allowing obligatory indemnification of directors or liability; etc.

Civic Activities. Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 1995-96, the Commissioners and employees:

- Contributed \$13,328 to the State Employees Charitable Campaign which supports United Way Agencies, National Health Agencies, International Service Agencies and local non-affiliated agencies.
- Donated \$890 the American Cancer Society in support of Commission staff who participated in the Annual "Climb the Mountain, Conquer Cancer" event. The Commission was

selected as one of the top 10 participants in the club.

- Donated seventeen pints of blood in specially arranged blood drives held at the Commission's facilities.
- Collected \$400 through baked goods and book sales to help brighten the Christmas of a needy family.
- 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 is also the primary action office for plans and projects of benefit to Commission employees. During FY 1995-96:

- A comprehensive Data Automation Plan for Fiscal Years 1996, 1997 and 1998 was developed and submitted to the Department of Administration. The plan stressed the Corporation Commission's on-going structured approach to achieving a high level of efficiency through automated information management systems.
- 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. However, slight under-utilization of some protected groups in certain occupational categories was determined. Hiring goals and 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 1995-96, the Business Office received and processed \$22,951,200 in revenue to the State Treasurer, of which \$13,454,300 was deposited in the State's General Fund. The General Fund receipts of the Corporation Commission were among the highest of all state agencies. In addition to revenue deposits, the business office issued 341 purchase orders; processed 520 travel claims; received and entered into inventory 400 items; and serviced 275 employees through personnel actions and payroll transactions.



Jerry Rudibaugh
Chief Hearing Officer



HEARING DIVISION

Mission: To conduct hearings, analyze the evidence and draft recommended decisions for the Commissioner's consideration and approval.

The Hearing Division exercises the Commission's 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. 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. Rate applications are processed under the procedural schedule established by the Hearing Officers, in order to ensure that proposed Opinion and Orders are issued in a timely manner within the framework of the Commission's "timeclock" rules.

During FY 1995-96, the six Hearing Officers in the Division conducted 312 public hearings, encompassing a total of 333 days. This is an increase of 108 hearings or 53% over FY 1994-95. A summary of hearings is shown below.

PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1995-96

TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	10
Transfers/Sales	12
Certificates of Convenience and Necessity	159
Orders to Show Cause and Complaints	15
Financing	3
Rules (new and amended)	5
Adjudications	1
Deletions	3

TYPE OF HEARING	NO. OF HEARINGS
Securities Division	3
Railroad/Safety Group	20
Tariff	0
Pre-Hearing Conferences	28
Public Comments	18
CC&N Extensions.....	21
Miscellaneous (oral arguments, motions to compel, etc.).....	14
TOTAL	312

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 1995-96, the Hearing Division prepared a total of 313 recommended orders, 280 for cases involving a hearing and 33 for non-hearing matters, mainly expedited rate applications for small water companies. The number of orders has increased by 110 or 50% over the previous fiscal year.

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 1995-96, the Hearing Division issued 508 such orders. This is an increase of 222 procedural orders or 73% over the previous twelve months.

As reflected by the information above, the Hearing Division workload has increased by over 50% in the past fiscal year with no increase in resources. Further, with the passage of the Telecommunications Act of 1996 and the requirement for the Hearing Division to conduct arbitrations, the workload has increased even more dramatically since the end of FY 1995-96 with no increase in resources.

The Hearing Division has been able to continue to meet all of its deadlines by working longer, harder and more efficiently. This increase in responsibility and workload has resulted in an imbalance which needs to be addressed in the immediate future.



Joan Adams Moore
Director



CORPORATIONS DIVISION

Mission: To grant corporate status to companies organizing under the laws of Arizona; to issue licenses to foreign corporations and limited liability companies who propose doing business in this state; and to maintain their files for benefit of public record and service of process.

The Corporations Division approves for filing all articles of incorporation for Arizona businesses; all articles of organization for limited liability companies; grants authority to foreign corporations to transact business in this state; propounds interrogatories when necessary to determine a company's lawful purpose; and revokes the corporate charters of those corporations which do not comply with Arizona law. The Division collects from every corporation an annual report which reflects its current status, business, and financial condition; maintains this information in a format conducive to public access; responds to public questions concerning Arizona businesses and corporation law; and responds to the needs of the business sector by disseminating whatever information is mission-critical to them in the most expedient and cost-effective manner possible.

Any significant changes to Articles of Incorporation or Articles of Organization for Limited Liability Companies in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed with the 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 or administratively dissolved if certain statutory requirements are not met. Likewise, the authority of a foreign (non-Arizona) corporation to do business in Arizona may be revoked.

The Corporations Division is comprised of six sections, with each section designed to perform specific functions. The Division also provides staffing in the Tucson Office of the Corporation

Commission for service to the residents of Southern Arizona.

CORPORATE FILINGS SECTION

The Corporate Filings Section approves and processes all filings directly related to Articles of Incorporation and Organization. The section determines availability of Corporate/LLC names, processes applications filed by foreign corporations seeking authority to transact business in Arizona, and certifies copies of any and all corporate and limited liability company documents on file for introduction into court and private business transactions. As of June 30, 1996, there was a total of 144,307 corporations and limited liability companies transacting business in the State of Arizona.

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 and limited liability company names are similar to those governing trade names, which are administered by the Secretary of State.

The number of documents processed by the Corporate Filings Section during FY 1995-96 were as follows:

Domestic Articles of Incorporation	13,100
Foreign Applications for Authority,	3,156
Amendments	6,153
Domestic and Foreign Mergers	898
Domestic LLC's	5,630
Foreign Applications for LLC's	248

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. During FY 1995-96, this section processed over 104,601 Annual Reports.

The Annual Reports Section is further responsible for recording statutory agent changes and any changes to general corporate information which occur during the year. Additionally, this section is responsible for carrying out the provisions of A.R.S. §§10-1420 relating to the dissolution of a domestic corporation's Article of Incorporation or revocation of a foreign corporation's authority to transact business in Arizona for failure to meet filing requirements. This action is taken after due process including the issuance of a notice of delinquency sixty days prior to revocation.

RECORDS SECTION

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

The section also provides a telephone information service for public inquiries regarding corporate status and general information. The recorded number of incoming telephone calls during FY 1995-96 exceeded 700,000. 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 and limited liability companies whenever either entity 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.

EXPEDITING SECTION

The Expediting Section performs essentially the same function as the Corporate Filings Section, except that all business documents are examined and filed in a priority same day service at the request of the customer. This has proven to be a well used service and averaged 1700 filings per month at the end of FY 1995-96.

STARPAS OPERATION

The State of Arizona Public Access System (STARPAS) project was mandated in FY 1992-93 by A.R.S. §§10-129.01 & 10-1085.01. STARPAS provides on-line public access to corporate records on file with the Commission. The STARPAS project was completed in FY 1994-95, and during FY 1995-96 served more than 190 private-sector customers and over 40 government agencies. The STARPAS Operations section is responsible for the management and enhancement of this system, and a similar system which supports the Secretary of State's Office, as well as all information management functions for the Corporations, Administration, Legal and Hearings Divisions.



Dee Riddell Harris
Director



SECURITIES DIVISION

Mission: To ensure the integrity of the securities marketplace through investigative actions as well as the registration and/or oversight of securities, securities dealers and brokers, investment advisers and their representatives; to enhance legitimate capital formation; and to minimize the unnecessary burden and expense of regulatory compliance by legitimate business.

The Division reviews prospective offerings of securities to ascertain that full and fair disclosure is made to potential securities investors and that the terms of offerings are not inherently fraudulent. Securities dealers and salespersons are required to register with the Division. The Division reviews these applications and monitors the conduct of investment advisers, dealers and salespersons; investigates possible violations; where the evidence warrants, brings administrative, civil or criminal enforcement actions; and conducts programs to educate investors to protect themselves. The Division consists of five sections: Corporation Finance, Trading and Markets, Law and Policy, Enforcement, and Financial Analysis.

CORPORATION FINANCE SECTION

Corporation Finance is involved in the review of applications for registration of securities under the Arizona Securities Act. The section also reviews applications for exemption from the registration provisions of the Act. The section participates in the early stages of the capital formation process through its pre-filing conferences with issuers. The Division makes its staff available to issuers through pre-filing conferences in which a potential issuer meets with members of the staff to discuss applications to register securities. The time a filing spends in the review process is significantly reduced by this program. Section staff participated in 9 pre-filing conferences last year.

The Corporate Finance Section processed 9,730 applications for securities registration, 2,988 filings for various exemptions from registration and 1,661 name change requests during FY 1995-96.

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 1995-96, the section registered 4 offerings under this program.

TRADING & MARKETS SECTION

This section is responsible for the administration of the registration and licensing provisions of the Securities Act and the Investment Management Act. Staff conducts on-site examinations of dealers and investment advisers to ensure compliance with these Acts. The Corporation Commission is authorized to deny, suspend, or revoke a registration or license, to assess fines and to order restitution. During FY 1995-96, the section processed 1,369 dealer and 68,839 agent registrations.

An additional responsibility of the section is the regulation of the Arizona Stock Exchange (AZX). The AZX commenced operations in Phoenix on March 31, 1992. The AZX is an all-electronic call market which had approximately 8,100 equity securities (with approximately 60 Arizona based companies and a large number of additional companies with a strong Arizona presence) available for trading as of June 30, 1996. The AZX was averaging several hundred thousand traded shares daily as the Fiscal Year closed.

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 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 1995-96, the Division initiated 65 investigations and had a total of 154 cases under investigation. It instituted 29 administrative proceedings and transmitted evidence to the Attorney General which resulted in 2 civil cases involving 11 defendants and 7 criminal cases involving 8 defendants. The Securities Division makes a substantial commitment 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 attorneys are appointed Special Assistant Attorneys General to assist during litigation. A total of 134 subpoenas were issued and 64 examinations under oath were taken during the year.

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.

OFFICE OF GENERAL COUNSEL

The responsibilities of the Office of General Counsel include: the No-Action (interpretive) letter program, rule-making, supervision of the duty officers, drafting legislation and providing assistance to other sections as requested by the Director or Assistant Director. Additionally, the General Counsel staff work with the business and financial communities on capital formation issues and SEC and NASAA Small Business Conferences.

Administrative Matters: In an effort to bring Arizona securities laws into harmony with revised federal securities laws, the Arizona Legislature adopted the Arizona Private Securities Act (Senate Bill 1383). The Reform Act is the most significant amendment to the Arizona Securities Act since its enactment in 1951 and impacts virtually all types of securities litigation. The Reform

Act seeks to balance deterrence of certain types of securities litigation, such as "strike suits", against preservation of legitimate relief for defrauded investors, such as victims of "Keating-like" swindles. The Division's investor education program consists of a year-round speakers bureau for civic and consumer groups, publications and distribution of investor education brochures, bulletins and videos, and on-going dissemination of investor information to local regional and national media to reach our primary audience, the individual investor. These efforts strive to equip Arizonans to make informed investment decisions and to protect themselves from falling prey to investment scams perpetuated by dishonest con men. In addition, the Division's public reference room is open to the general public and provides extensive information on public companies which have Arizona securities holders. Available to investors, brokers, securities analysts, financial journalists, students and any other members of the public, the public reference room is located at 1300 West Washington, Third Floor and is the only source of information about certain small Arizona-based companies.



Gary M. Yaquinto
Director



UTILITIES DIVISION

Mission: To conduct research and analysis and provide recommendations to the elected commissioners on all matters relating to the regulation of public service corporations (public utilities) under the state constitution and statutes to ensure their actions are consistent with the public interest.

The Utilities Division monitors the operations of 610 public service corporations providing utility service within the State of Arizona. The Division reviews utility company financial records and recommends to the Commission the 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. Staff preparation for a major rate hearing begins at 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 of 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. Division staff participated in several major proceedings during FY 1995-96 which are individually described in Appendix B.

The Utilities Division consists of six sections through which the staff performs its 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
Electric cooperatives	11
Gas utilities	8
Telecommunications companies	204
Water utility companies	349
Sewer companies	32
Irrigation companies	1

TOTAL 610

ACCOUNTING AND RATES SECTION

The Accounting and Rates Section assists the Commissioners in their utility regulation decisions by doing impartial evaluations of the financial requests filed by utilities for the Commission's consideration. The number of applications the Accounting and Rates Section analyzed and prepared recommendations in, totaled over one hundred during FY 1995-96. They included proposals for rate changes and new tariff provisions; requests for financing authority, fuel and purchased power and gas adjustor revisions, applications for utility purchases and asset transfers, applications for Certificates of Convenience and Necessity, special contract approvals, special accounting requests and various compliance issues.

The section arrives at its recommendations by balancing the interests of ratepayers, utility own-

ers and the general public interest. The section gives careful consideration to ratepayers' interests to ensure that they are provided reliable and satisfactory utility service at fair and reasonable rates. Accounting and Rates directs attention to issues affecting the long-term financial ability of the utility to serve its customers. Raising the visibility of conservation is another priority reflected in the section's recommendations to the Commission. Accounting and Rates' evaluations reflect the Commission's concern for economic conditions present in the service territory, and the quality, reliability and safety of the utility's service.

The Commission depends on the Accounting and Rates Section to help in setting rates that are reasonable for utility customers while allowing the utilities to meet their ongoing expenses and earn a fair return on their used and useful investments. The section recommends rates that reflect the true cost of providing utility services.

The Accounting and Rates Section provides technical assistance to other sections within the Utilities Division when they need to respond to questions from customers, utility management and staff, and the public at large. Staff professionals interact with outside expert consultants, attorneys and other financial experts in the evaluation process of various utility applications.

Section staff provides expert testimony concerning a reasonable level of revenue requirements, cost of capital, rate design and other issues. Staff analysis and testimony assists the Commission with proper matching of revenues with expenses. Other testimony deals with appropriate investment levels, cost of capital, including recommendations on allocation of debt and equity, and the appropriate cost of these forms of financing. Staff professionals testify regarding a variety of other technical accounting and finance areas. The section is responsible for developing general policy recommendations to the Commission about accounting, finance, and ratemaking which impact on water, wastewater, electric, gas and telecommunications utilities.

Water utilities make up nearly 80 percent of the utilities regulated by the Commission. Therefore, much of the section's focus was on the special needs of the water industry in Arizona.

Accounting and Rates staff participated in several proceedings involving major gas, electric and telecommunications utilities. Staff members were actively involved in the review and examination of issues concerning the increasingly important area of utility diversification. Section staff provided expert testimony and assistance in analyzing applications for a variety of ratemaking matters filed by, Citizens Utilities Company, Arizona Public Service Company, Tucson Electric Power Company and U S WEST Communications, Inc.

An ongoing responsibility of the Accounting and Rates Section is monitoring the bank balance reports filed by utilities which are authorized purchased power and fuel and/or purchased gas adjustor mechanisms. The section recommended purchased power adjustor refunds of approximately \$2.56 million to ratepayers of the electric industry and approximately \$15.43 million to ratepayers in the natural gas industry. The adjustor mechanism allows utilities to recover incremental changes in power and fuel costs (electric, natural gas and propane gas) without filing general rate applications. These costs are generally volatile in nature and represent a large part of the utilities' operating expenses. The section reviews these monthly filings to ensure only appropriate costs are included and that adjustments made by the utility are proper. The section also monitors trends in costs which may require a change in the adjustor mechanism.

The Accounting and Rates Section is anticipating devoting significant resources to utility applications in Fiscal Year 1996-97. Staff will be completing its responses to requests for permanent rate increases from Citizens Utilities Company - Maricopa Water/Wastewater Operations, Arizona Electric Division and Northern Arizona Gas Division. Staff will also be responding to requests for permanent rate increases from Southwest Gas Corporation, Garkane Power Association, Inc., Paradise Valley Water Company (a subsidiary of American Water Works Company, Inc.), Far West Water Company, Citizens Telecommunications, Broken Bow Gas Company, as well as others.

ECONOMICS AND RESEARCH SECTION

The Economics and Research Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utili-

ties and rural electric cooperatives. The staff uses a variety of computer models, quantitative techniques, and qualitative methods in its evaluations and research. Recommendations are presented to the Commission through staff reports and sworn testimony.

During late FY 1995-96, the staff began its triennial review of the major electric utilities' integrated resource plans. Integrated resource planning is a systematic look at long term supply and demand side issues related to electric service in Arizona. It emphasizes review of a wide range of supply and demand alternatives, including conventional sources of supply, renewable generation technologies such as solar power, and energy conservation. Staff's 1996 review focused on customer service, costs and cost control, risks and risk management, and corporate responsibility in the areas of environmental protection and low income programs.

Also during FY 1995-96, the Economics and Research Section continued its investigation into the introduction of retail competition in the electric industry. The staff completed a review of issues drawn from the work of several task forces. In addition, comments were received from 31 parties in June 1996 on how retail electric competition could be implemented. The staff then prepared for public comment a draft rule to introduce retail electric competition.

Energy conservation activities carried out by electric and gas utilities continued over the year and the Economics and Research Section reviewed program proposals and monitored ongoing conservation programs. Major conservation programs include efficient lighting, efficient motors, efficient chillers, shade trees, energy efficient new homes, residential retrofit measures, and education programs. Using focus groups and other survey techniques, the section also investigated the energy services industry, which provides energy conservation measures primarily for commercial and industrial consumers.

Staff members of the Economics and Research Section continued to monitor renewable energy plans and activities of Arizona electric utilities and participated in activities of several industry organizations, including the South West Regional Transmission Association (SWRTA) and the

Arizona Photovoltaics for Utilities Cooperative.

The Economics and Research Section also contributed to the settlement of major rate cases for Tucson Electric Power Company and Arizona Public Service Company (a rate reduction agreement). In addition, the staff prepared testimony for the Citizens Utilities Company electric division rate case.

With the introduction of greater competition in the telecommunications market, the Economics and Research Section reviewed six applications for authority to provide competitive local telephone service and provided testimony in each case. The section also reviewed and provided recommendations on four applications to provide resold long distance service.

The section prepared analyses and recommendations on approximately 65 tariffs and special contracts submitted by telecommunications, electric, and natural gas utilities. Additionally, the staff participated in the development of telecommunications rules regarding universal service and interconnections among telephone companies.

During the latter half of CY 1995 and the first half of CY 1996, staff members published articles in *The Electricity Journal* and *Business Economics*, and made presentations at the annual meetings of the Association Energy Services Professionals and the American Council for an Energy-Efficient Economy.

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 regulated water companies, wastewater (sewer) companies, telecommunications companies, electric companies, and one irrigation company. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage, and injuries.

The engineering staff assists the Consumer Services Section with the technical aspects of

complaints received from utility customers. The engineers accompany Consumer Services Section 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 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. The Engineering Section staff also conducts cost of service studies for all utilities, including gas.

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 newly proposed generating station and electrical transmission lines.

In the area of telecommunications, the telecommunications engineer reviews tariff filings, CC&N applications, and evaluates the facilities comprising the telecommunications 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 public safety standards and practices.

Pipeline Safety Group

The Pipeline Safety Group operates its main office

in Phoenix. The group also staffs offices in Tucson and Prescott.

The Pipeline Safety Group 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, three intrastate direct sales 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 Pipeline Safety Group is also involved in the enforcement of the Arizona Underground Facilities, or "Blue Stake" Law.

As a result of these responsibilities, the Pipeline Safety Group monitors the activities of three interstate natural gas transmission pipelines, three interstate hazardous liquid pipelines, twelve major intrastate gas utility operations, three intrastate direct sales pipelines, three intrastate hazardous liquid pipelines, and 1,201 master meter natural gas operations.

During FY 1995-96, the Pipeline Safety Group inspected twelve major intrastate gas utility operators, three interstate gas transmission operators, three intrastate hazardous liquid pipeline operators, three interstate hazardous liquid pipeline operations. The Pipeline Safety Group completed 772 comprehensive inspections and 179 specialized inspections, 444 follow up inspections and 143 construction inspections of master meter natural gas distribution systems.

Also during FY 1995-96, the Pipeline Safety Group investigated 98 reported violations of the Underground Facilities Law, 89 notices of violations were issued and \$19,000 in fines were collected. Staff also received 398 notices of incidents from pipeline operators, and pipeline operators shut off gas service to 69 master meter gas systems requiring repair.

The Pipeline Safety Group provided 13 training workshops during the year for operators of master meter gas systems, and assisted master meter operator personnel by making available to them pipe location and leak detection equipment. During FY 1995-96, the group also conducted 29

Blue Stake training classes.

The Pipeline Safety Group and the U. S. Department of Transportation, Transportation Safety Institute, presented two industrial corrosion control training seminars and two Federal/State inspector corrosion control training seminars.

Railroad Safety Group

The Railroad Safety Group enforces signal, track, freight car, motive power equipment, railroad operating practices, hazardous material shipments by rail and other railroad safety standards of the Federal Railroad Administration (FRA). The Railroad Safety Group is also responsible for inspection and review of industrial track, rail-highway crossings and new railroad construction projects. In addition to its main office in Phoenix, two railroad safety inspectors are located in Tucson. They provide the Commission and the citizens of Southern Arizona with quick response to any rail incident, as well as direct contact for more routine matters.

During FY 1995-96, the group's inspectors inspected 751 miles of track, 4,767 freight cars, 419 locomotives, 987 crossings and 41 industrial track facilities. They also made 537 operating practices inspections and 817 inspections of manufacturers that ship and receive hazardous materials by rail. The group investigated 94 railroad accidents and 47 complaints received from other governmental agencies, railroad employees and the public.

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, \$31,035,000 in federal funds and \$2,667,773 in state funds have been spent or encumbered to improve safety warning devices on public rail-highway crossings throughout the State. Commission staff, with the Federal Highway Administration and the Arizona Department of Transportation, conducts an annual review of certain public rail-highway crossings throughout the state and prepares a list of crossings to be considered for improvement using federal and state funds. From the list, the Commission publishes an array of 15 - 20 of those crossings. The array is then submitted to the cities, towns, and/or counties to make appli-

cations for funding.

The group is also very active in the National Operation Lifesaver Program, a public awareness program that promotes rail/highway crossing and trespasser 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.

CONSUMER SERVICES SECTION

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

During FY 1995-96, the Consumer Services Section, in addition to responding to and resolving complaints and inquiries, continued the Consumer Services Assistance Program (which provides an overview of the regulatory process as it relates to water utilities), public comment meetings, mediation proceedings, meter testing and field investigations. 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 increase, the Consumer Services Section monitors and responds to customer service problems and comments. In many cases, section staff arranges for a Public Comment Meeting. These Public Comment Meetings have been beneficial in establishing a dialogue between utility companies and the customers. During FY 1995-96, section staff conducted 21 such Public Comment Meetings.

Mediation meetings. The Consumer Services Section also conducts mediation meetings between customers and utility companies when informal complaints have not been resolved. During FY 1995-96, staff conducted 36 mediation proceedings which led to dispute resolutions in all but one case.

Meter Testing. The Consumer Services Section

has a water meter testing facility used to determine the accuracy of the water flow through a meter. Staff tested 65 meters during FY 1995-96.

Field Investigations. The Consumer Services Section conducts field investigations in an effort to resolve both customer and utility complaints. These investigations consist of face to face meetings often at the customers home or the utility premises. In FY 1995-96, staff conducted 91 field investigations.

The following tables list the breakdown of complaints handled by the Consumer Services Section in FY 1995-96 by utility group and complaint type.

Water Companies.....	1156
Electric Companies.....	589
Gas Companies.....	157
Communications Companies.....	5947
Sewer Companies.....	1022
TOTAL	8,871

Service Inquiries.....	1137
New Service Inquiries.....	2534
Billing Inquiries.....	1184
Deposit Inquiries.....	113
Repair Inquiries.....	864
Other Inquiries.....	3039
TOTAL	8,871

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; administers 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 558 compliance items and generated 386 compliance documents.

Other items processed by the Administrative Services Section during FY 1995-96 include:

Staff Reports.....	216
Testimony.....	34
Open Meeting Items.....	252
Central File Items.....	1,151
Telephone Calls.....	49,264
Copies.....	274,671

Library. The Administrative Services Section also maintains a multi-media 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. Over 3,000 books and periodicals have been catalogued.

Docket Control Center. Utilizing an enhanced computerized case management system for processing all dockets, 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.

Major activities during FY 1995-96 include the following:

Hearing Notices Processed.....	297
New Application for Hearings Processed	
Utilities.....	585
Securities.....	33
Docket Distributed All Filings.....	5,670
Responses to Inquiries/Research Assistance.....	8,473
Certifications.....	162
Open Meeting Item Processed.....	519
Opinion & Orders Mailed.....	582
Transcripts Logged & Microfilmed	
Utilities.....	373
Securities.....	8
Other Dockets Prepared for Microfilming.....	440
Daily Updates of Pending Matters Report..	16,720
Case Management System Updates Made	18,838

Annual Assessments. The Division collects an annual assessment from public service corporations, as established by A.R.S. §§ 40-401 and 40-401.01. Assessment notices issued during FY 1995-96 were as follows:

	UTILITIES		
	REV. FUND*	RUCO**	TOTAL
Electric	\$3,440,095	\$522,443	\$3,962,538
Telephone	1,558,691	260,796	1,819,487
Gas	480,585	113,028	593,613
Water	109,514	32,034	141,548
Sewer	<u>14,127</u>	<u>5,349</u>	<u>19,476</u>
TOTAL	\$5,603,012	\$933,650	\$6,536,662

NOTE: Assessment rates were computed as follows:

* 0.1265 percent of intrastate total gross operation revenue.

** 0.0530 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 1995-96, the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Wtr/ Irr	Sewer	Tel/ Comm	RR	Other	Total
Rates	2	1	31	5	1	0	0	39
Financing	7	0	13	1	0	0	0	21
Fuel Adjustors	0	3	0	0	0	0	0	3
Tariffs	6	8	7	0	67	0	0	88
Certificates*	3	0	48	3	177	0	0	231
Grade Crossings	0	0	0	0	0	32	0	32
OSC	0	0	1	0	4	0	0	5
Complaints	1	1	4	0	3	0	0	9
Other	<u>32</u>	<u>9</u>	<u>14</u>	<u>1</u>	<u>19</u>	<u>1</u>	<u>1</u>	<u>77</u>
TOTAL	51	22	118	10	270	33	1	505

*New, Extensions, Deletions, Transfers



Paul Bullis
Chief Counsel



LEGAL DIVISION

Mission: To provide professional, high quality legal representation to the Corporation Commission in the performance of all of its powers and duties, except for matters pertaining to the activities of the Securities Division.

The Legal Division represents the Commission in all matters relating to public utility regulation and in other areas not associated with the Securities Division. Securities-related legal cases are litigated by the Attorney General's Office. Matters handled by the Legal Division fall into five general categories: Commission dockets; Federal regulatory dockets; litigation; other administrative matters; and special projects.

A brief description of the matters handled, by category, is listed below, followed by some of the more important proceedings in which the Legal Division participated during FY 1995-96.

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 ("FCC"),

the Federal Energy Regulatory Commission ("FERC"), the Nuclear Regulatory Commission ("NRC"), the Department of Transportation - Office of Pipeline Safety, and the Federal Railroad Administration ("FRA").

One of the most important federal proceedings in which the Legal Division appeared on behalf of the Commission during FY 1995-96 involved El Paso Natural Gas Company (El Paso). The proceedings addressed the pending turnback of capacity on the El Paso System by the California local distribution companies, as well as encompassing general rate hearings. These proceedings will continue on into FY 1996-97.

In addition, the FERC issued its Order No. 888 during FY 1995-96. Order No. 888 and its progeny will affect Arizona utilities who own and operate electric transmission lines. The Legal Division has been involved in monitoring federal developments in the electric transmission industry at the same time the Commission has been considering restructuring of the electric utility industry within Arizona. The pace of the restructuring of the electric industry quickened during FY 1995-96. It is anticipated that electric restructuring efforts will consume significant resources of the Legal Division throughout the next several fiscal years.

Litigation: The Legal Division represents the Commission before a variety of courts and either has pending or has recently concluded cases before municipal and justice 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.

The Legal Division has been called upon with regularity to represent the Commission in Bankruptcy Court in matters involving regulated utilities. The complexity and time-consuming nature of bankruptcy proceedings is such that Bankruptcy Court proceedings have become a permanent part of the Legal Division's representation of the Commission. During FY 1995-96, three utilities had active bankruptcy proceedings.

Consolidated Water Utilities was one of the utilities with active Bankruptcy Court proceedings during FY 1995-96. In addition, to the Bankruptcy Court proceedings, Legal Division resources were devoted to representing the Commission or its staff in proceedings involving Consolidated before the Commission, Superior Court and the appellate courts.

Administrative Matters: The Legal Division counsels the Corporation Commission in the legalities of miscellaneous administrative matters such as the Open Meeting Law, guidelines and procedures, ex-parte communications, filing requirements and a variety of similar matters. In addition the 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 Division's involvement in representing the Corporations Division has been an area of increasing activity over the past several years. The trend continued during FY 1995-96. Issues included ongoing litigation related to the Commission's obligation to prevent deceptively similar corporate names, and administration of Arizona's new Business Corporations Act.

Special Projects: The Legal Division participates in the revision of all rules that pertain to the Utilities Division, including the Pipeline and Railroad Safety Groups. During FY 1995-96, proceedings were ongoing related to competitive telecommunications services and amendments of existing rules in a variety of areas, including both Pipeline Safety and Railroad Safety rules. 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. Rulemakings which resulted in litigation during FY 1995-96 included the rulemakings related to competitive telecommunications services.

Several of the State's major utilities had cases before the Commission during FY 1995-96. Issues surrounding Tucson Electric Power Company ("TEP") continued to consume substantial resources as they had during the previous

fiscal year. Pursuant to the Commission's affiliated interest rules, TEP filed a Notice of Intent to Form a Holding Company. The notice was acted on by the Commission during FY 1995-96. It is anticipated that TEP issues will require significant involvement by Legal Division for the foreseeable future.

The rate application filed by U S West Communications ("US West") during FY 1992-93 was decided by the Commission during FY 1994-95. The Court of Appeals issued its decision on the US West appeal during FY 1995-96, substantially affirming the Commission's decision, but remanding the case to the Commission on one issue. The Commission was considering the remand issue at the close of FY 1995-96. It is anticipated that this case will be fully and finally resolved during FY 1996-97.

Other major proceedings to which the Division resources were devoted during FY 1995 - 96 included: Citizens Utilities request for rate increases for its Arizona Electric Division, its Northern Arizona Gas Division, and its Mojave Water and Wastewater Division; TEP rate proceeding; Consideration and approval of an agreement to reduce rates for Arizona Public Service Company ("APS"); Proceedings involving sales of U S West rural exchanges; and the implementation of a second area code in Arizona.

The Commission is engaged in a series of proceedings related to the restructuring of the telecommunications industry. The Division has represented the Commission or its staff in a variety of proceedings related to the emergence of 'competition in the telecommunications industry. Included have been work shops, task forces, and proceedings before federal agencies as well as the rule making and other proceedings before the Commission itself. During FY 1995-96, the pace of the emergence of competition in telecommunications heightened. The Telecommunications Act of 1996 will result in additional proceedings before the Commission, as well as substantial additional involvement in proceedings before federal agencies and courts.

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.

The Commission's rules relating to transactions with unregulated affiliates have been in effect since FY 1992-93. The rules create an ongoing responsibility to consider and process applications and reports under the rules. During FY 1995-96, several applications and numerous reports were filed under the rules, all of which required scrutiny by attorneys in the Legal Division. These activities can be expected to continue indefinitely.

Resource Planning continues 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 demanded considerable resources from the Legal Division during FY 1995-96. Task forces established in earlier fiscal years continued to be active and produce reports and recommendations for the Commission. The resource planning effort is an ongoing one into the indefinite future, requiring significant commitments of time and personnel by the Legal Division.



SOUTHERN ARIZONA OFFICE

As noted in several areas of this Annual Report, the Corporation Commission maintains a Southern Arizona Office in Tucson at 400 West Congress Street. 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.

The Corporations Section continued to experience growth in most types of services to Southern Arizona business entities including the filings of Articles of Incorporation, Annual Reports, processing of applications under the Limited Liability Company Act and the issuance of Certificates of Good Standing.

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 interest to residents and utilities located in Southern Arizona. In addition to holding hearings in Tucson, the Hearing Officer often travels to and conducts hearings in the Southern Arizona communities affected by the proceeding.

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



APPENDIX A

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 receives funding through several sources: the State General Fund, the Utility Regulatory Revolving Fund, the Arts Trust Fund, the Investment Management Act Fund, the Public Access Fund and Federal Grant Funds. The first three sources required legislative appropriation in FY 1995-96. All sources except the Federal Grant will be subject to appropriation beginning in FY 1997-98. The Administration, Corporations and Hearing Divisions as well as the Railroad Safety Group of the Utilities Division are funded from the General Fund. In addition to General Funds, the Administration Division receives limited funding from the Utilities Regulation Revolving Fund and the Corporations Division is the recipient of funding from the Arts Trust Fund and Public Access Fund. The Securities Division receives General Funds as well as a portion of the fees it collects through the Securities Regulatory and Enforcement Fund and the Investment Management Act Fund. The Utilities, excluding the Railroad Safety Group, and the 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 significantly more revenue from securities and broker registrations, corporation filing fees, fines, 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 following tables portray revenue and expense data for FY 1994-95 (Actual), FY 1995-96 (Report Year Actual), and FY 1996-97 (Estimated).

**TABLE 1
REVENUE BY SOURCE**

	<u>Actual</u> <u>1994-95</u>	<u>Actual</u> <u>1995-96</u>	<u>Estimate</u> <u>1996-97</u>
Corporation Filing Fees*	\$4,526,400	\$5,143,900	\$5,600,000
Security and Broker Fees*	6,066,800	7,761,400	6,900,000
Miscellaneous Service Charges*	88,600	64,400	80,000
Fines and Forfeitures*	201,500	484,600	300,000
Utility Assessments	5,381,900	5,618,500	5,440,200
Pipeline Safety Revolving Fund-Fines	0	5,000	0
Sec. Regulatory & Enforcement Fund	1,514,700	1,665,300	1,925,100
Sec. Investment Mgt. Act Fund	825,200	825,700	847,200
Public Access Fund	974,100	1,198,400	1,286,600
Federal Grant	<u>195,700</u>	<u>184,000</u>	<u>185,000</u>
TOTAL	\$ 19,774,900	\$22,951,200	\$22,564,100

* Deposited in the State General Fund

**TABLE 2
EXPENDITURES BY BUDGET PROGRAM**

	Actual <u>1994-95</u>	Actual <u>1995-96</u>	Estimate <u>1996-97</u>
Administration & Hearing Divisions	\$1,786,000	\$1,823,500	\$1,799,600
Corporations Division	2,481,900	2,540,700	2,672,000
Securities Division	3,515,600	3,770,700	4,211,000
Railroad Safety Group (Utilities Division)	643,000	517,600	582,300
Utilities Division	4,681,600	4,972,200	4,955,400
Legal Division	<u>993,300</u>	<u>1,026,600</u>	<u>1,008,800</u>
TOTAL	\$14,101,400	\$14,651,300	\$15,229,100

**TABLE 3
EXPENDITURES BY FUND SOURCE**

	Actual <u>1994-95</u>	Actual <u>1995-96</u>	Estimate <u>1996-97</u>
General Fund	\$5,248,500	\$5,174,400	\$5,208,000
Arts Trust Fund	27,200	28,500	28,900
Securities Regulatory & Enforcement Fund	1,165,300	1,350,500	2,018,300
Securities Inv. Management Act Fund	698,280	868,100	600,700
Utility Regulation Revolving Fund	5,762,600	5,948,400	5,990,000
Public Access Fund	1,178,900	1,121,800	1,285,200
Pipeline Safety Revolving Fund	0	55,000	0
Federal Grant	<u>110,700</u>	<u>104,600</u>	<u>98,000</u>
TOTAL	\$14,101,400	\$14,651,300	\$15,229,100



APPENDIX B

Arizona Public Service Company
Docket No. U-1345-95-491
Decision No. 59601

In 1995 Arizona Public Service company ("APS") and Staff conducted an evaluation of APS' continued cost containment efforts, customer growth, improved performance from nuclear and fossil-fueled generating units and the fact that APS was facing increasing competition and the uncertainty of fundamental industry restructuring. APS and Staff concluded that the rates and charges previously authorized by the Commission for APS on June 1, 1994, by Decision No. 58644, should be reduced, accelerated amortization of regulatory assets should be allowed, and additional incentives created for efficient operation. Staff and APS also reached agreement on a number of interrelated issues and filed a Rate Reduction Agreement with the Commission on December 4, 1995.

On January 5 and February 26, 1996, Procedural Orders governing the conduct of this proceeding were issued. The Procedural Orders required that APS provide notice by publication of the hearing in this matter and provide copies of the Rate Reduction Agreement to all parties of record in APS' 1994 rate reduction proceeding (Docket No. U-1345-94-120); established procedures for intervention; established procedures for discovery; established dates for Staff, APS and intervenors to file testimony or comments; and set a hearing date at which all parties would be able to present witnesses and evidence and cross-examine the witnesses of other parties.

Intervention was granted by Procedural Orders for the Residential Utility Consumer Office, Cyprus Bagdad Copper Corporation, Department of the Navy, Southwest Gas Corporation, Citizens Utilities Company; Arizona Electric Power Cooperative, Inc., Arizona Cotton Growers Association, Lor-D's Ranch Mineso Dairy, Arizona Interfaith Coalition on energy, Maricopa County, Arizona Community Action Association, Arizonans for Sustainable Growth, Salt River Project Agricultural Improvement and Power District, Arizona Association of Industries, Arizona Cogeneration Association and Tucson Electric Power Company.

All intervenors had the opportunity to file comments regarding the Rate Reduction Agreement, to file written testimony, and to present witnesses and exhibits and to cross-examine witnesses presented by other parties. A hearing was held beginning on April 9, 1996 and two Restated and Amended Rate Reduction Agreements were submitted by APS and Staff, which addressed some of the intervenor comments, corrected errors and omissions, additional concerns of intervenors, made minor corrections to the Agreement and adopted changes to the Agreement from each of the Commissioners.

At Open Meeting held April 18, 1996, by Decision No. 59601, the Commission incorporated the Amended Rate Reduction Agreement ("Agreement") executed April 18, 1996, between APS and Staff in its Order.

APS agreed to implement a first year rate decrease of \$48.5 million, or 3.26%. Base rates were reduced by \$39.3 million, and the EEASE surcharge was abolished resulting in a further decrease of \$9.2 million. The rate decrease was based on retail sales to and revenues from eligible customers for the adjusted test year ended June 30, 1995, and became effective July 1, 1996.

In order to provide customers with the opportunity for further price reductions, while maintaining its financial stability, the Company agreed to continue to lower its average cost/kWh. To the extent the Company is successful, customers and shareholders will benefit. Each year following the initial rate reduction in base rates determined as follows: if the average price/kWh exceeds the average cost/kWh, based on results of operations for the preceding calendar year, then 55% of the difference will be reflected as a reduction in base rates effective July 1 of the current year. However, if APS experiences a decrease in Property Tax Expense from the previous year, then APS agreed to identify that amount and include it in the calculations in this filing of its annual rate incentive filing. If the Unit Cost Ratio (UCR) exceeds the Unit Price Ratio (UPR), APS agreed to adjust the 55 percent ratepayer share to reflect inclusion of the Company's 45% share of such Property Tax Expense decrease that would otherwise result from the Agreement's calculation of the rate

incentive mechanism. After giving effect to the consolidation, elimination and restructuring of certain existing rate offerings as discussed below, any net revenue decrease will be allocated among customers by means of a uniform percent reduction in the demand and energy charges for all current APS rate schedules, except certain customers whose contracts are already negotiated with discounted rates or have fixed rate provisions. In any year, if the average cost/kWh is equal to or exceeds the average price/kWh, there will be no further change in base rates (neither a decrease nor an increase in base rates for that year).

Under the Agreement, certain regulatory assets will be recovered by accelerating their amortization over an eight year period commencing July 1, 1996. These assets are primarily cost deferrals from Palo Verde Units 2 and 3, that were recorded under ACC approved accounting orders, and regulatory assets to cover future income tax liabilities recorded in 1993 as a result of implementing Financial Accounting Standard No. 109 with respect to deferred income taxes. This amortization will be included in the calculation of the average cost/kWh. The accelerated amortization approved in this proceeding was for the purpose of settlement and anticipates the transition period toward a more competitive marketplace. Further, APS agreed that the accelerated amortization of these regulatory assets cannot be used as a separate justification for a net rate increase in any future rate proceeding. Finally, at the end of the Moratorium Period, the accelerated rate of amortization will continue until further order of the Commission.

The determination of the reduction to base rates for the succeeding years will be determined pursuant to the Company's calculation of the average price and cost/ kWh using data from the prior calendar year. A filing of this calculation will be made on or about March 1 of each year for Staff review. Such filing will also be made available to the Arizona Residential Consumer Office ("RUCO") for its review and comment. Any reduction for the current year will become effective for usage on or after July 1, if and only if such reduction is approved by the Commission. If the Commission orders a hearing on such decrease, this would automatically delay the effective date of any decrease until a final order is issued.

To improve the Company's equity ratio in anticipation of greater competition, Pinnacle West Capital Corporation agreed to infuse \$200 million of com-

mon equity, in \$50 million increments, by each year-end beginning in 1996, into APS with such infusion to be included in calculating each year's average cost/kWh under the Agreement.

It was agreed that during the Moratorium Period, no party would seek to change the rates except as set forth specifically in the Agreement. However, neither APS nor Staff would be prevented from seeking a change in rates prior to July 2, 1999 in the event of: (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in the Company's cost of service as a result of federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions, or orders.

The parties agreed to include a flexible pricing tariff provision, which was suggested by the Company, to be considered in the Commission's electric competition docket (Docket No. U-0000-94-165).

It was agreed that APS would retain the right to propose for Commission approval during the Moratorium Period new or revised rate designs, such as revised time-of-use (TOU) pricing periods and prices (both residential and general service) once advanced meter communications systems are in place. APS agreed to submit such a TOU proposal before December 31, 1996, a real-time pricing experiment or operational program and unbundled retail rates to provide customers alternative service options.

The parties agreed to the following changes to previous rate schedules. These changes were designed to more accurately reflect the costs to serve, promote fairness among similar customer groups, and improve customer understanding and acceptability of the pricing, terms and conditions of the tariffs. It was agreed to revise Schedule #1, General Terms and Conditions of Service, so that credit and collections practices and charges fairly and properly collect costs from customers who impose those costs on APS without subsidies from other customers. The parties also agreed to other minor changes to clarify current practices and service specifications.

It was agreed to revise partial requirements provisions of the tariff to consistently and fairly charge for services provided. APS had a variety of rates applicable to various types of partial requirements customers and these were revised to apply market-based charges for standby, and cost-based charges for supplemental and

maintenance service. The agreement specified that revisions to its tariffs for these partial requirements services would indicate that the customer designates the amount of standby capacity he or she wants in setting the contract standby capacity and that the capacity could be less than the capacity of the self generation facility. In addition, APS agreed to review whether the potential for lower rates for a customer with a capacity factor consistently below 75 percent (relative to a customer with a higher capacity factor) is in need of correction or clarification. APS' Schedule E-51 is to be frozen to new and reconnecting customers and APS' Schedule E-50 is to be canceled.

It was agreed that EPR-1, -2, and -3, purchase rates for small qualified cogeneration customers, would be revised to reflect current buy-back rates, current metering technology and establish consistency among the rates. Schedule EPR-4 will be changed to reference schedules for sales to the customer. In addition, Schedule EPR-2 will be changed to offer an option for the incremental cost of the bidirectional meter to be paid in a lump sum or in monthly installments over a specified time period. Schedule EPR-1 was canceled.

Extra-small general service Rate E-31 was eliminated, and E-31 was incorporated into Schedule E-32 so that the monthly service charge under the new Schedule E-32 is \$12.50, and the energy charge (prior to application of the rate decrease) was increased by \$0.00024 per kWh for all kWh.

APS agreed to also submit a new rate (E-20) applicable only to "houses of worship." This rate will be open to all qualified customers and in all other respects will be identical to its Schedule E-21, which latter rate will be frozen.

APS agreed to revise its Schedule E-3 so that when an otherwise eligible customer uses more than 1200 kWh in any month, such customer will continue to receive a discount under E-3 for that month, but that discount will be a flat \$10.

APS agreed to revise its Schedule E-4 so that when an otherwise eligible customer uses more than 2000 kWh in any month, such customer will continue to receive a discount under E-4 for that month, but that discount will be a flat \$20. A copy of revised Schedule E-4 is attached as Attachment 12 to the Amended Agreement.

It was agreed that the electric base rates to be effective in 1996 would include the costs associated with depreciation and decommissioning expense schedules previously being used by APS. The results of any future Palo Verde decommissioning cost or plant depreciation studies completed during the Moratorium Period will be reflected in the average cost/kWh used in the calculation of additional base rate reductions described above. Any depreciation or decommissioning study will be reviewed by Staff and RUCO, and the new schedules derived therefrom will be authorized and approved in accordance with the procedure established in Decision No. 58644.

It was agreed that APS' commitment to foster investment in DSM and renewables continues and will be implemented as follows: The EEASE fund is to be eliminated. Any over-recovery was to be refunded to customers through a one-time refund within 120 days of the effective date of the Commission's order. APS agreed to work with Staff and RUCO on a procedure to effectuate this provision. A total of \$7 million was to be included in base rates for demand side management (DSM) and renewables. Of the \$7 million total, APS agreed to undertake at least \$3 million of renewables programs per year on average and at least \$3 million of DSM per year on average. APS agreed to spend at least \$7 million per year on DSM and renewables projects. Moreover, APS agreed to attempt to identify and was authorized to expend and include in its calculation of UCR up to an additional \$3 million per year on additional direct DSM program costs and/or renewables. If APS spends less than the \$7 million included in base rates on renewables and DSM per year on average, the Commission, at the next rate case, will review these expenditures and may order appropriate refunds to ratepayers taking into consideration any sharing that has occurred as a result of the agreed upon cost sharing agreement.

APS agreed to move to phase out consumer rebate DSM programs for customers and instead substitute shareholder-funded, market-based DSM programs for larger customers and, for all customers, develop and implement ratepayer-funded market transformation activities (such as trade ally programs or consumer education programs). However, costs (including incentives and net lost revenues) for existing and approved customer rebate programs will be included in the calculation of the Company's \$7 million obligation until such programs have been phased out. APS will evaluate the effectiveness of market transformation programs.

APS agreed to continue its low income DSM program (at least at previous levels), complete current monitoring and evaluation commitments, and fulfill outstanding commitments under existing rebate programs.

APS agreed to prepare an administrative and implementation plan for Staff review and approval for its DSM and renewables programs within six months. APS also agreed to prepare proposals for new DSM and renewables programs for Staff review and approval.

APS agreed to file detailed semi-annual reports with Staff and in Docket Control on all DSM and renewables activities, although confidential information need not be filed in Docket Control.

APS recognized that the jurisdictional portion of any net refund that it receives as a result of disposition of the property tax lawsuit (Tucson Electric Power v. Apache County, 175 Ariz. 485 (App. 1995)) is owed to its customers, since these taxes were collected from and paid by customers to APS through rates. Therefore, APS will refund to its customers the net jurisdictional amount of over collected property taxes that are refunded to APS by the State of Arizona. APS agreed to work cooperatively with Staff and RUCO to determine the amount of any refund and method for returning the refund to customers.

It was agreed that the rates and charges authorized by the agreement fully include a return on the recorded book original cost of all jurisdictional APS assets (net of depreciation, amortization, and deferred income taxes and other deferred credits) as of June 30, 1995, excepting construction work in progress as of such date. However, nothing in the Agreement will be construed as prohibiting Staff or any other party from pursuing new issues related to expenditures made or actions taken after June 30, 1995.

Staff and APS stipulated to the adoption of the fair value rate base and fair rate of return and agreed that the resultant revenue decrease results in just and reasonable rates for the Company.

It was agreed that each provision of the Agreement was in consideration and support of all the other provisions. The Agreement became effective on July 1, 1996.

APS' agreement to the matters contained in the agreement was predicated on a national movement toward competition in the electricity industry. That movement raises a number of policy and legal issues in Arizona which were summarized (not necessarily completely) in a Points of Agreement Attachment to the Agreement. APS' own views, independent of any the Staff may have, of the proper resolution of certain of the issues presented in the Points of Agreement were summarized and presented in another Attachment to the Agreement.

Neither the Agreement nor the Commission's Order purports to resolve the issues identified in industry restructuring towards competition, per the Attachments to the Agreement mentioned above, nor did the Agreement of the Order bind the parties or the Commission to take or adopt any particular substantive position with regard to those issues.

It was agreed that the Commission's approval of the Agreement, and the implementation of the rate reduction and other matters contained in the Agreement, were not conditioned upon the resolution of the industry restructuring issues identified in Attachments to the Agreement.

The Agreement that the Commission's approval of the Agreement, and the implementation of the rate reduction and other matters contained in the Agreement, were not conditioned upon the resolution of the industry restructuring issues identified in Attachments to the Agreement.

The Agreement contemplated the filing and approval of depreciation or decommissioning studies without explicitly stating a requirement that those studies be submitted to the Commission for consideration in Open Meeting. It was agreed that changes in depreciation or decommissioning costs as a result of such studies may affect base rates by virtue of their inclusion in the calculation of average cost/kWh in connection with the Agreement.

Tucson Electric Power Company
Docket No. U-1933-95-317
Decision No. 59594

On June 13, 1995, Tucson Electric Power Company (TEP) filed an application to (1) increase base rates on a permanent basis by including the remaining 37.5 percent of the Springerville Unit No. 2 not cur-

rently in rate base into rates; (2) share the Southern California Edison (SCE) settlement benefits with ratepayers; (3) modify the traditional jurisdictional allocation between the FERC and the ACC on a going-forward basis; (4) Obtain pricing flexibility for all customers; (5) Obtain authority for incentive regulation; and (6) establish a Low Fund for Emergencies (LIFE) community service program.

On July 12, 1995, TEP's Application ("Application") was found sufficient by Staff. Following submission on TEP's Application, Staff made its investigation and examination of the Company's books and records to ascertain the merits of the Company's requests. Staff and the Company negotiated a resolution of the issues in the case and reached a proposed Settlement Agreement ("Initial Settlement") of the Application, along with a settlement of TEP's request to Organize a Public Utility Holding Company (Docket No. U-1933-95-069), which was presented to the Commission.

A hearing on the Initial Settlement was held on January 17, 18 and 19, 1996, in Tucson, Arizona. At the Special Open Meeting held subsequent to the hearing, the Commission adopted several amendments to the Initial Settlement, but declined to adopt the Initial Settlement.

On March 8, 1996, TEP filed a Motion for Consideration of Proposed Rate Settlement ("Motion"). Attached to the Motion was a new Settlement Agreement ("Agreement") that incorporated all of the amendments agreed to by the parties and adopted by the Commission at the January 19, 1996 Special Open Meeting. Further, unlike the Initial Settlement that was signed by only TEP and Staff (although all of the parties ultimately supported the amended Initial Settlement), the Agreement was signed by the following parties: TEP, Staff, Residential Utility Consumer Office, Arizona Community Action Association, Jobs for Southern Arizona, LAW Fund Energy Project, Department of Defense, City of Tucson, Greater Arizona Manufactured Housing Association, Jay Donovan and Billy Burtnett. Additionally, SRP and Southwest Gas indicated that they did not oppose the Settlement.

The Agreement provides an opportunity for TEP to further improve its financial condition and to position it to effectively participate in a more competitive electricity market. TEP reaffirmed its interest in effi-

cient operations and cost containment, including its intention to ensure that its customers receive their fair share of the benefits of efficient operations and cost containment efforts, where appropriate.

The Agreement also provided that, effective March 31, 1996, TEP was authorized a 1.62 percent overall base rate increase, spread across the board. TEP's Fair Value Rate Base was set at \$1,359,085,000 and a 1.62 percent revenue increase allowed TEP to earn a Fair Rate of Return on that Fair Value Rate Base of 6.73 percent.

TEP's proposed synchronization, excess capacity and depreciation periods, including a reduction of the amortization period for the excess capacity deferrals from 34.5 to 20 years, was approved.

All of TEP's Springerville Unit 2 was approved as used and useful for ratemaking purposes.

The Agreement established a moratorium period for any changes in base rates before January 1, 2000, except for conditions or circumstances which constitute an emergency, or for sharing of benefits with customers of cost containment efforts where appropriate, or in the event TEP is acquired by or merged with another company. In the event TEP is acquired by or merged with another company, the moratorium may be lifted only for the filing of a rate reduction. The Agreement specified conditions under which the moratorium period may be terminated or modified and provided reporting requirements from TEP to Staff. The Agreement further provided a requirement that TEP and Staff attempt to settle any propose termination or modification.

The Agreement permitted changes in specific rate schedules or terms and conditions of service during the moratorium period, where changes do not significantly affect the overall earnings of the Company.

The Agreement provided that TEP and Staff will review the concept of jurisdictional allocation at or before the next rate case, and provided that TEP may request such review in the event it is negotiating a long-term power sale that is not economically viable under jurisdictional allocation, but is otherwise beneficial to retail customers and shareholders.

The Agreement provided that TEP will file a tariff that enables TEP to negotiate a customer-specific rate for commercial and industrial customers, subject to specified conditions. TEP and Staff agreed to con-

sider incentive regulation options following Commission approval of the agreement and submit a proposal or proposals for Commission consideration within 18 months thereafter.

The Agreement authorized the establishment of a Low Income Fund for Emergencies (LIFE) community service program, subject to specified conditions.

The Agreement specified that TEP would undertake at least \$3,316,822 of demand side management ("DSM") and renewables projects per year. The costs included only program costs and costs of installing and operating renewables facilities and did not include lost net revenues or a reward to TEP. At least \$210,000 of the above sum was to be spent on renewables, including a reaffirmation by TEP of its goal of 5 MW of renewables by 2000. DSM programs were to continue to require pre-approval. TEP agreed to submit a renewables plan to Staff within six months and strive to meet specified requirements. TEP further agreed to continue its public interest commitments over the next five years during the transition towards increased competition. These commitments include managing planning risks and promoting energy efficiency and renewable resources. TEP promised to strive to meet the DSM targets consistent with the integrated resource planning process. The 1995 IRP targets 60 Mws of DSM resources by the year 2000.

The Agreement specified conditions relating to time of use rates in several rate classes. It also specified conditions relating to lifeline rates and interruptible service within each of several rate classes.

The Agreement included an assumed value ratio relating to backup service for qualifying facilities over 100 kW.

The Agreement provided for approval of enumerated tariff changes as filed by TEP in its rate case filing, as well as changes in tariffs not already proposed by TEP.

The Agreement authorized amendatory language to the Company's Rules and Regulations.

The Agreement required TEP to refund to its customers the net jurisdictional amount of over collected property taxes that are refunded to TEP by State of Arizona.

The Agreement required TEP to file with the Commission certain unbundled distribution tariffs.

TEP was put on notice that the prudence of coal and coal transportation costs would continue to be monitored in future rate cases. In instances where the coal and coal transportation costs are determined to be above relevant, comparable, term market costs, there will be rebuttable presumption that those excessive costs will be disallowed.

A decrease was noted in the cost of capital for electric utilities such as TEP due to lower interest rates, re-financings, and lower returns on the equity. The Commission also took official notice of TEP's financing application, Docket No. U-1933-96-086, which requested authority to refinance existing debt with lower cost, tax-exempt Industrial Development bonds. Based upon these factors, the Commission adopted a debt cost of 5.95 percent, resulting in a reduction of \$600,000 to the revenue requirement increase of \$9.5 million that was specified in the Agreement.

In TEP's previous rate filing, the Commission adopted a hypothetical capital structure of 40 percent equity and 60 percent debt to aid TEP's financial condition. The Commission noted that TEP's financial health had improved. In recognition of this improvement, the Commission adopted a capital structure of 37.5 percent equity and 62.5 percent debt, which reduced by 2.5 million the increase contained in the Agreement.

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 Cummard	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
John Ahearn	Democrat	1979-1981
Diane McCarthy	Republican	1981-1984
Richard Kimball	Democrat	1983-1985
Junius Hoffman	Democrat	1984
Marianne Jennings	Republican	1984
Sharon Megdal	Democrat	1985-1986
Renz Jennings	Democrat	1985-present
Marcia Weeks	Democrat	1985-present
Dale Morgan	Republican	1987-1995
Carl J. Kunasek	Republican	1995-present

ARIZONA CORPORATION COMMISSION

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