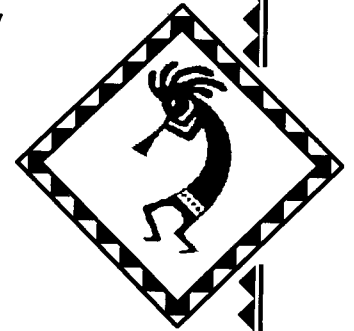


ARIZONA CORPORATION COMMISSION

**86th
Annual Report
1997-98**





THE COMMISSIONERS

Jim Irvin, Commissioner Chairman
Renz D. Jennings, Commissioner
Carl J. Kunasek, Commissioner

EXECUTIVE SECRETARY

Jack Rose

DIVISION DIRECTORS



Administration
Stuart Brackney

Hearing
Jerry Rudibaugh

Utilities
Carl Dabelstein
Ray Williamson, Acting

Corporations
Joanne MacDonnell

Legal
Paul Bullis

Securities
Michael Burton

Main Office
1200 West Washington
Phoenix, Arizona 85007

Adjunct Offices
1300 West Washington
Phoenix, Arizona 85007

Southern Arizona Office
400 West Congress Street
Tucson, Arizona 85701

Services:
Commissioners
Executive Secretary
Administration
Hearing
Utilities
Legal

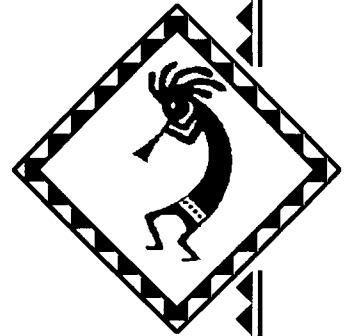
Services:
Corporations
Securities

1400 W. Washington
Phoenix, Arizona 85007

Services:
Corporations
Hearing
Utilities

ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

1200 West Washington
Phoenix, Arizona 85007
Phone: (602) 542-2237
Fax: (602) 542-4111
www.cc.state.az.us

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 operation of railroads and gas pipelines in Arizona.

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, 1996 - June 30, 1997. 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.

For current updates on the Commissions activities, open meetings, hearings, job openings and press releases, visit the agency internet website: www.cc.state.az.us

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

ALTERNATIVE FORMAT NOTICE

This document is available in alternative formats by contacting the office of the Executive Secretary, voice phone number (602) 542-3931 or Cynthia Sandoval, voice number (602) 542-0838.

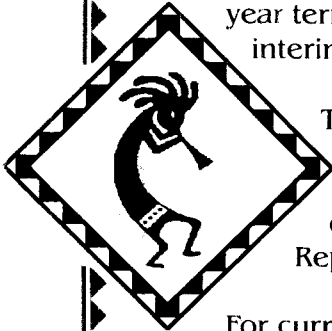
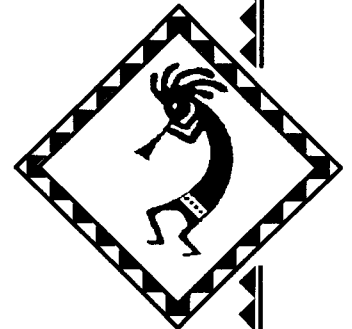
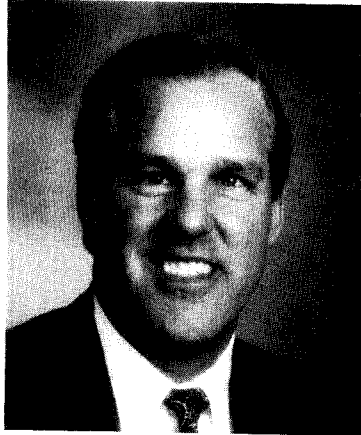


TABLE OF CONTENTS

MISSION	i
FOREWORD	i
THE COMMISSIONERS	2
THE EXECUTIVE SECRETARY	3
ADMINISTRATIVE DIVISION	4
HEARING DIVISION	6
CORPORATIONS DIVISION	8
SECURITIES DIVISION	11
UTILITIES DIVISION	14
LEGAL DIVISION	21
SOUTHERN ARIZONA OFFICE	24
APPENDIX	
FINANCIAL DATA SECTION	25





Jim Irvin
Commissioner-Chairman

Jim Irvin is a resident of Scottsdale and was elected to the Commission in November 1996 for the term beginning January 1997. He received a Bachelor of Science degree from the University of Southern California and a Masters of Business Administration from Loyola Marymount University. He served in the private sector as President and CEO of C.S.G. Security Service, Inc. until his election as commissioner. He currently serves as the chairman of the Commission. His current term runs through January 2003.



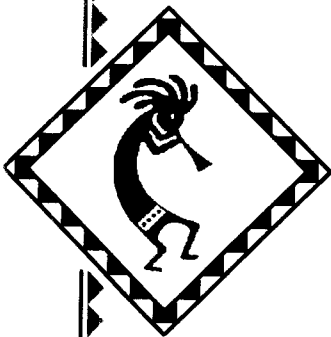
Renz D. Jennings
Commissioner

Renz Jennings, an Arizona native, was first elected to the Commission in November 1984 for the term beginning January 1985. Commissioner Jennings has a J.D. from the ASU College of Law and served three terms in the Arizona House of Representatives prior to his election to the Commission. He chairs the Committee of the Energy Resources and the Environment of the National Association of Regulatory Utility Commissioners and is past president of the Western Conference of Public Service Commissioners. He is currently serving in his third term on the Commission, which ends January 1999.



Carl J. Kunasek
Commissioner

Carl J. Kunasek was elected commissioner in November 1994 for the term beginning January 1995. He received a Bachelor of Science degree 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 a 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

Jack Rose

Jack Rose has served as executive secretary since June 1997. He holds a Bachelor of Arts degree in political science from Yale University and a J. D. from Harvard Law School. Mr. Rose served as an elected member of the Mohave County Board of Supervisors from 1985 to 1989, and chairman of the Budget, Finance, and Audit Subcommittee of the Maricopa County Charter Committee in 1996. He has worked as a management consultant and as CEO and co-founder of a small company, which developed, built and financed low-income housing.

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 intergovernmental liaison for the Corporation Commission.

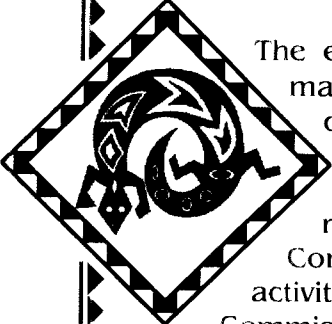


ADMINISTRATION DIVISION

Stuart Brackney
Director/Deputy Executive Secretary

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 that provide the fiscal and administrative service 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 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 Arizona Open Meeting Law, the Commission's ex-parte rule on unauthorized communications, and the Arizona Administrative Procedures Act control the activities of the Commission.

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 session or workshops. The number of meetings of these various types is 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.

CIVIC ACTIVITIES

Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 1997-98, the commissioners and employees:

Contributed \$9,620 to the State Employees Charitable Campaign which supports United

Way agencies, national health agencies, international service agencies and local unaffiliated agencies.

Donated eighteen pints of blood in specially arranged blood drives held at the Commission's facilities; donated 15 cases of canned food to help brighten the Christmas of needy families in the valley.

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 riding), and recycling of paper and newsprint.

The Commission's affirmative action plan was updated. The plan transmitted to the Governor's Office of Affirmative Actions, demonstrates that the Commission met overall parity goals.

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. The business office manager oversees all but budget preparation. The Commission's budget is developed and submitted by the Administration Division Director in coordination with the Executive Secretary and the Directors of the divisions of the Commission. Fiscal information related to the budget and expenditures are 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 Human Resources, and the State Procurement Office. During FY 1997-98 the Business Office received and processed

\$28,694,952 in revenue to the State Treasurer, of which \$17,207,093 was deposited in the state's General Fund. The general fund receipts of the Corporation Commission were the highest of all state agencies. In addition to revenue deposits, the Business Office issued 570 purchase orders; 3053 claims; received and entered into inventory 474 items; and serviced 273 employees through personnel actions and payroll transactions.



HEARING DIVISION

Jerry Rudibaugh
Chief Hearing Officer

Mission: To conduct hearings/arbitrations, analyze the evidence and draft recommended decisions for the Commissioners' consideration and approval.

The Hearing Division exercises the Commissions authority to hold public hearings/arbitrations 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.

Securities Division	14
Railroad/Safety Group	15
Tariff	1
Pre-Hearing Conferences	30
Public Comments	6
CC&N Extensions	30
Miscellaneous (oral arguments, motions to compel, etc.)	40
Arbitration	2
Line Extensions/Agreements	2
TOTAL	233

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 Commissions "timeclock" rules.

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 the FY 1997-98, the Hearing Division prepared a total of 301 recommended orders, 207 for cases involving a hearing and 94 for non-hearing matters, mainly expedited rate applications for small water companies, coin operated pay telephones, and inter/intraLATA resellers.

During FY 1997-98, the six Hearing Officers in the Division conducted 233 public hearings/arbitrations, encompassing a total of 253 days. A summary of hearings/arbitrations is shown below.

PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1997-98

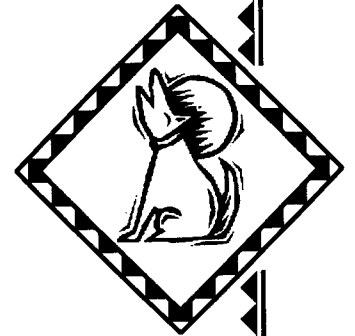
TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	21
Transfers/Sales	13
Certificates of Convenience and Necessity	15
Orders to Show Cause and Complaints	28
Financing	13
Rules (new and amended)	3
Adjudications	0
Deletions	0

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 1997-98, the Hearing Division issued 444 such orders.

As to FY 98-99, the Hearing Division anticipates a major increase in workload related to arbitrations, electric competition, major rate cases, as well as a continuance of an increased workload related to the Securities Division. Many of the initial



Interconnection Agreements approved pursuant to the Federal Telecommunications Act of 1996 will be expiring which will result in an increase in the number of arbitrations. With the commencement of electric competition, it is anticipated that there will be an increase in the number of certificates of convenience and necessity hearings as well as other related electric competition matters. There are already a half dozen significant rate cases scheduled for FY 98-99 and U S West is scheduled to file a rate case during the month of December 1998. In addition, it is likely that the Commission will revisit the consolidated Telecommunications Cost docket. Clearly, the Hearing Division resources will be strained in the upcoming FY.



CORPORATIONS DIVISION

Joanne MacDonnell
Director

Mission: To grant corporate or limited liability company 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 choose to not comply with Arizona law. The division collects from every corporation an annual report which reflects its current status, business, and depending upon certain criteria, 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

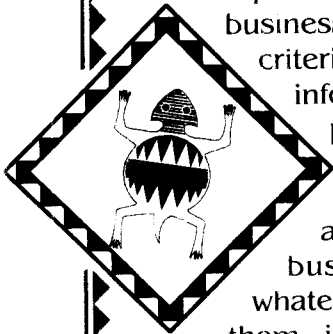
The Corporate Filings Section approves and processes all filings directly related to Articles of Incorporation and Organization. The section determines availability of corporate/LLC names, processes applications filed by foreign corporations seeking authority to transact business in Arizona. As of June 30, 1998, there were a total of 194,760 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 1997-98 were as follows:

Domestic Articles of Incorporation ...	13,190
Foreign Applications for Authority	3,841
Amendments	7,422
Domestic and Foreign Mergers	1,118
Domestic LLC's	8,733
Foreign Applications for LLC's	782

All forms in the corporate filing section were updated during the course of the 1997-1998



fiscal year. They were then posted to the Commission's web site for customers to see and download. A new auto attendant phone system was implemented which improved our customer response and enabled the section to increase production by 60%.

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 1997-98, this section processed over 109,418 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 & 10-1530 relating to the administrative dissolution of a domestic corporation 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. As a result of legislation, corporate due dates were staggered evenly across the calendar year by the commission.

In May 1998, the Arizona Legislature passed a bill, which was signed into law by Governor Hull that changed Title 10. The new law allows foreign corporations that have been revoked to reinstate over a three year period. It also rescinded the remaining financial disclosure requirements for profit corporations. Only nonprofit corporations must still file financial disclosures with their annual reports. All annual report forms were updated and improved. An instruction sheet and checklist was created. Customer errors were reduced by 50%.

RECORDS SECTION

The Records Section is responsible for maintaining all corporation and limited liability company documents filed with the Commission, and certifies copies of any and

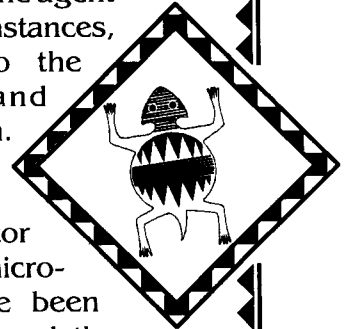
all corporate and limited liability company documents on file for introduction into court and private business transactions. All corporate files are public record. Microfilmed files may be viewed by the public at the customer service counter. Hard copies of documents can be purchased at a minimal cost per page.

This Section also provides a telephone information service for public inquiries regarding corporate status and general information. The recorded number of corporate status calls during FY 1996-1997 exceeded 500,000. An incoming 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. The records section made a number of improvements, a three year backlog on officer and director information was eliminated. New microfiche reader/writer machines have been purchased. This has greatly improved the quality of the recorded images and microfiche copies.

MIS SECTION

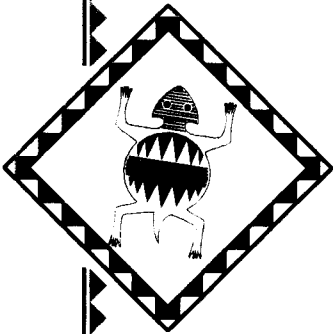
The State of Arizona Public Access System (STARPAS) project was mandated in FY 1992-93 by A.R.S. §§10-129.01 and 10-1085.01. STARPAS provides online public access to corporate records on file with the Commission. The STARPAS project was completed in FY 1994-95, and serves the division, over 375 private sector customers, 60 government agencies (e.g. a law firm, irregardless of the number of users, counts as one customer) and over 70 state and local government agencies. The MIS 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 technology related issues for the Corporation Division.



During FY 1997-98, the MIS Section provided numerous program modifications in support of the Division's overall goals to streamline work processes. Many additional modifications were required due to legislative changes that went into effect during the course of the year.

The MIS Section also set up a Web Server which supports the entire agency's Web Site (the Securities Division has now deployed their own Web Server) and provided on-line access to the forms used by the Corporate Filings and Annual Reports section. The MIS Section later added static corporate information to this Web Site.

In addition, the MIS Section has been certified as Y2K ready.



SECURITIES DIVISION

Michael Burton
Director

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 expense of regulatory compliance on legitimate business, consistent with vigorous investor protection.

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, and investment advisers and investment adviser representatives are required to license with the Division prior to conducting business in Arizona. The Division reviews these applications and monitors the conduct of investment advisers and investment adviser representatives, 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 four sections: Registration, Office of the General Counsel, Enforcement and Management Information Systems.

REGISTRATION SECTION

Registration 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 7 pre-filing conferences last year.

This section is also 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 1997-98 the section processed 1726 dealer and 92,614 agent registrations. In addition, 631 investment adviser and 474 investment adviser representatives were licensed. A total of 75 field examinations of dealers and investment advisers were conducted. During FY 1997-98, the section initiated 7 investigations and had a total of 5 cases under investigation at year-end.

The Registration Section processed 13,511 applications for securities registration, 903 filings for various exemptions from registration and 2,391 name change requests during FY 1997-98.

The Division participated in a national committee which developed and implemented a system for coordinating the registration of corporate securities among all but 3 states which register securities. Arizona is the coordinating state in the system (Coordinated Equity Review) which effects substantial cost savings for small companies going public.

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 1997-98, the section initiated 53 investigations and had a total of 106 cases under investigation at year-end. It instituted 20 administrative proceedings and transmitted evidence to the Attorney General which resulted in 2 civil cases involving 11 defendants and 9 criminal cases involving 23 defendants. A total of 157 subpoenas were issued and 58 examinations under oath were taken during the year. 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.

OFFICE OF GENERAL COUNSEL

The office of general counsel provides legal advice to the Securities Division and assistance to the business and financial communities and securities practitioners. Its responsibilities include administrative rulemaking, legislation, the no-action (interpretive) letter program, supervision of the public education program, supervision of the duty officer program that responds to public inquiries, and general personnel matters. In FY 1997-98, the general counsel's office completed seven rulemaking initiatives, including three statutorily-mandated time frame rules and four rules intended to promote capital formation in Arizona. The capital formation rules consisted of suitability standards in lieu of merit review, an exemption for Internet

offerings, an exemption for solicitations of interest ("testing the waters"), and an exemption for electronic venture capital networks ("angel networks"). The general counsel's office also reestablished the Securities Division's speakers bureau, which is discussed in greater detail under administrative matters.

MANAGEMENT INFORMATION SYSTEMS SECTION

The Division's Management Information Systems section operates, maintains and implements upgrades and modifications to the division's local area network. It is responsible for design of required databases and reports. This section provides training to staff on new software applications.

This section also provides support to enforcement in pursuing the collections of commission ordered restitution and fines for violations of the Arizona Securities Act and the Investment Management Act.

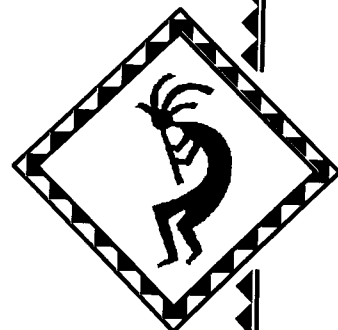
ADMINISTRATIVE MATTERS

The Division's investor education program consists of a year-round speakers bureau for civic and consumer groups. It involves distribution of investor education brochures, bulletins, 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 prevent themselves from falling prey to investment scams perpetuated by con men.

The division participated in the "Facts of Savings and Investing Campaign of the Americas" in April. This was a highly successful investor education program which involved investor protection agencies from Chile to Canada in a historic hemispheric coordinated effort. The division hosted a well attended town hall where staff gave a series of presentations and then via satellite feed "hooked" into a national town hall hosted by the chairman of the Securities and Exchange Commission.



The Commission is also a sponsor for the Arizona Council on Economic Education Stock Market Game. This program enables students from grade school to high school to become acquainted with important concepts such as due diligence and the relationship between risk and reward. They learn how capital markets function by simulating purchases and sales of securities and are able to track their "portfolio" following their investments in the Wall Street Journal. The Division believes an informed, educated investor is the first line of defense against investment fraud. On the national front, the Division is participating in "Financial Literacy 2001," a \$1 million campaign targeting 25,000 high school personal finance teachers across America. The program is designed to improve the financial skills of secondary school students, by equipping personal finance teachers with better teaching tools.



UTILITIES DIVISION

Ray Williamson
Acting Director

Mission: To provide the Commission well researched and sound regulatory policy, and rate recommendations through a focused analysis on the benefits and impacts on all stakeholders, consistent with the public interest, in an evolving marketplace.

The Utilities Division monitors the operations of 1,134 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 requirement and rates and charges to be collected.

These regulatory responsibilities and authorities are fully defined in Article XV of the Arizona Constitution and Section 40-201, et seq., Arizona Revised Statutes. They are further defined in the Arizona Administrative Code Title 14, Chapter 2.

Article XV of the Arizona Constitution defines "Public Service Corporations" (public utilities) as those furnishing gas, oil, or electricity for light, fuel or power; water for irrigation, fire protection, or other public purposes; or those transmitting messages or furnish telegraph or telephone service.

A major responsibility of the division will be to provide both leadership and support to the Commissioners in the harmonious team effort to achieve a restructuring of the electric industry.

A large portion of the Utilities Division's responsibility is rate review and determination of a reasonable return on fair value for public service corporations. A.R.S. Section 40-250 requires that all public service corporations obtain Commission approval before establishing or changing any rate, fare, toll, rental charge, classification, contract, practice, rule or regulation. With the exception of small public service corporations with gross operating revenues derived from intrastate operations 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 revenue, 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 a hearing include 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 preparation of written testimony and schedules.

The Utilities Division consist of six sections through which the staff performs its responsibilities: Accounting and Rates, Economics and Research, Engineering, Safety, Consumer Services and Administrative Services.

ACCOUNTING AND RATES SECTION

The Accounting and Rates Section continues to focus on the preparation of testimony and Staff Reports for utility rate cases. During the fiscal year, the section completed and filed 184 Staff Reports and 76 testimonies. These documents addressed accounting issues, the reasonableness of expenses, the cost of capital, the division of revenues among the rate classes and, ultimately, the recommended increase or decrease in rates. The group concentrates on rate cases for Arizona's many regulated water companies but also participates in rate cases for other types of utilities. For example, during the fiscal year, Accounting and Rates provided cost of capital and rate design testimony in the Southwest Gas Company rate case. The section also carried primary responsibility for the completion of the Southwestern Telephone Company and Arizona Telephone Company rate cases.

The section also provides analysis and recommendations regarding public utility mergers, debt and equity issuances, transfers of assets, purchased power and gas adjuster revisions and applications for Certificates of Convenience and Necessity. Examples of these non-rate case duties performed during the fiscal year included participation in cases addressing the purchase of Black Mountain Gas by Northern States Power Company and the restructuring of US WEST, Inc. into two entities. Section Staff also participated in a workshop addressing legislation to allow water utilities to pass-through certain expenses directly to customers.

During this fiscal year section members participated in varying degrees in the electric restructuring process including participation in workshops, preparation of testimony, attendance at meetings and negotiations, and cooperation and coordination with external consultants. The electric utilities also filed information regarding their stranded costs and filed unbundled tariffs that were reviewed by Accounting and Rates Staff members.

ECONOMICS AND RESEARCH SECTION

The Economics and Research Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities and rural electric cooperatives. The section also analyzes and implements telecommunications policies adopted by the Commission. The staff uses a variety of computer models, quantitative techniques, and qualitative methods in its utility evaluations and research. Recommendations are presented to the Commissioners through staff reports, sworn testimony, memos, and recommended orders.

During FY 1997-98, the Economics and Research Section continued to conduct research in areas critical to the introduction of competition in utility industries, as well as implementing components of the Commission's policies related to those industries. The section provided leadership in the following working groups established

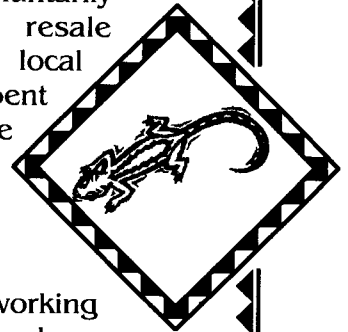
to assist in the transition to retail electric competition: Electric System Reliability and Safety, Customer Selection, Stranded Cost, Customer Education, Low Income Issues, and the Solar Portfolio Standard Subcommittee of the Unbundled Services and Standard Offer Working Group. The section also began a task force to address modifications to the integrated resource planning rules, in light of impending electric retail competition and other changes in the industry.

With the continued introduction of greater competition in the telecommunications market, the Economics and Research Section reviewed and provided recommendations on applications to provide facilities-based competitive local exchange service and applications to provide local exchange service as a reseller. In addition, the section reviewed and provided recommendations on voluntarily negotiated interconnection and resale agreements between competitive local exchange companies and incumbent local exchange companies. The section also received and processed applications for long distance resellers.

Staff also began organizing a working group to explore possible purchased gas adjuster (PGA) design changes for natural gas utility companies. The working group was to address issues such as the volatility of natural gas prices, flexibility in the utilities' recovery of natural gas costs, and the possibility of more uniform PGA mechanisms in Arizona.

The section reviewed energy conservation program proposals and monitored ongoing conservation programs carried out by electric and gas utilities over the year. New and ongoing programs that were reviewed included low income weatherization, efficient lighting, efficient motors, efficient chillers, shade trees, and energy-efficient new homes.

The Economics and Research Section prepared analysis and recommendations on approximately 165 tariffs and special contracts submitted by telecommunications,




electric, and natural gas utilities. Staff also prepared testimony on a natural gas utility rate case.

SAFETY SECTION

The Safety Section consists of two groups: Pipeline Safety and Railroad Safety. The Pipeline Safety Group enforces the Arizona Underground Facilities Law, and oversees the construction, operation and maintenance of all intrastate and interstate natural gas, other gases, liquefied natural gas, and hazardous liquid pipeline facilities operating within the State of Arizona. The Railroad Safety Group oversees the operation and maintenance of all railroad operations, track maintenance and railroad/street grade crossings.

PIPELINE SAFETY GROUP

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



The Pipeline Safety Group enforces pipeline safety standards and operating practices applicable to the transportation of gas and hazardous liquids by pipeline and for the operation of two liquefied natural gas facilities. Inspections are conducted on all interstate gas transmission and interstate hazardous liquid pipeline facilities. Inspections and operations audits are conducted on all intrastate natural gas transmission/distribution pipelines, interstate hazardous liquid pipelines and master meter gas systems operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the gas company meter. The Pipeline Safety Group also enforces 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, two liquefied natural gas facilities three interstate hazardous liquid pipelines, fourteen major intrastate gas pipeline operations, five intrastate gas transmission pipelines, four intrastate hazardous liquid

pipelines, and 1,201 master meter natural gas operations.

During FY 1997-98, the Pipeline Safety Group inspected thirteen major intrastate gas pipeline 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, 197 specialized inspections, 620 follow-up inspections and 141 construction inspections of master meter natural gas distribution systems.

Also during FY 1997-98, the Pipeline Safety Group investigated 188 reported violations of the Underground Facilities Law, 156 notices of violations were issued and \$46,000 in fines were collected. Staff also received 408 notices of incidents from pipeline operators, and pipeline operators shut off gas service to 64 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 1997-98, the group also conducted 45 Blue Stake training classes.

The Pipeline Safety Group and the U. S. Department of Transportation, Transportation Safety Institute, presented a pipeline safety-training seminar for pipeline operators.

RAILROAD SAFETY GROUP

The Railroad Safety Section 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 the Tucson office. 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 1997-98, The group's inspectors inspected 1,515 miles of track, 2,888 freight cars, 94 locomotives, 617 crossings and 19 industrial track facilities. They also made 238 operating practices inspections and 1,112 inspections of manufacturers that ship and receive hazardous materials by rail. The group investigated 100 railroad accidents and 50 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, about \$32,810,402 in federal funds and \$3,060,985 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 applications 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 and arbitrates complaints from the public regarding operation, billings, terminations and quality of service and facilities of public

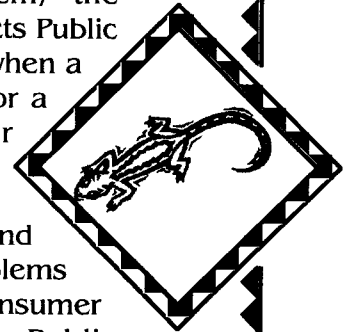
service corporations to ensure their compliance with the Arizona Constitution, statutes, Orders of the Commission, Commission promulgated Rules and approved tariffs.

During FY 1997-1998, the Consumer Service Section, in addition to responding to and resolving complaints and inquiries, conducted public comment meetings relative to rate applications, mediation proceedings, shop and on-site meter testing. In addition, the Consumer Services Section participated in county fairs statewide to bring awareness to the public of the services offered by the Commission to the utility consumers.

Public Comment Meetings: In an effort to provide consumers an opportunity to voice their concerns and opinions on proposed rate increases and the quality of service of the public utilities serving them, the Consumer Services Section conducts Public Comment Meetings. At the time when a public utility files an application for a rate increase, the Consumer Services Section assists in the review of the application for sufficiency. It also receives and responds to customer service problems and comments. If required, the Consumer Services Section organizes a Public Comment Meeting prior to the hearing on the rate application to provide the Commission with the consumer's concerns. These meetings have proven to be beneficial to the public utilities in establishing better communications between them and their customers. During the 1997-1998 Fiscal Year, the Consumer Services Section organized 15 Public Comment Meetings.

Mediation: At times when the public utility, Staff, and the consumer are not able to agree on the resolution of the consumer's complaint, a representative from the Consumer Services Section, different from the initial Consumer Service Specialist, will conduct an independent Mediation to resolve the complaint. During the Fiscal Year 1997-1998, the Consumer Services Section conducted 13 Mediations.

Meter Testing: The Commission, through



the Consumer Services Section, provides for the testing of water meters arising from a billing dispute when the accuracy of the meter is questioned. During the Fiscal Year 1997-1998, the Consumer Services Section tested 89 meters.

Field Investigations: In order to properly investigate consumer complaints, it may be necessary to make on-site field investigations. These investigations may entail an inspection of the physical plant of the public utility, a review of its books and records and verbal interaction with the customer and the public utility. During the Fiscal Year 1997-1998, Consumer Service conducted 52 Field Investigations.

Fairs: In an effort to bring to the public an awareness of the services offered by the Commission's Consumer Services Section, Consumer Services Specialists maintained a booth at numerous county fairs throughout the State. At these fairs, consumers were given the opportunity to voice their concerns about utility related issues or to file complaints. In addition, they were provided brochures that describe their rights regarding billing and termination of service.

Complaints and Inquiries: The following table lists the breakdown for total number of complaints and inquiries handled by the Consumer Services Section for the Fiscal Year 1997-1998 by utility type and complaint type:

Water Companies	855
Electric Companies	549
Gas Companies	542
Communication Companies	3400
Sewer Companies	266
TOTAL	5612
Sewer Inquiries	290
New Service Inquiries	967
Billing Inquiries	1467
Deposit Inquiries	99
Repair Inquiries	394
Other Inquiries	2395
TOTAL	5612

These totals represent verbal, written and e-mail complaints.

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 inquiries.

The Engineering Section 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, purchased power and fuel adjusters, and other cases. The engineers perform plant inspections to determine whether utility plant is "used and useful" 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.

In the water/wastewater area, the Engineers monitor the operation of over 400 water and sewer systems. These systems range in size from less than 10 connections to over several thousand connections. The Engineering Staff assists in processing over 300 Water Main Extension Agreements each year.

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 stations and electrical transmission lines.

In the area of telecommunications, the Telecommunications Engineers review tariff filings, CC&N applications, and evaluate the various 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.

ADMINISTRATIVE SERVICES SECTION

The Administrative Services Section provides general administrative and clerical support to the following Sections: Economics and Research, Engineering and Consumer Services. During the winter and spring of 1998, the Administrative Services Section provided support for the successful continuation of installation of new software, development of computer training and conversion of system databases. Administrative support staff provide the following services: preparation of open meeting items, staff reports and correspondence, design and maintain databases, design and maintain computerized filing systems, provide research, distribute mail and internally generated documents, copying and binding of all Division testimony and filings. The Administrative Services Section is responsible for the Docket Control Center, the Annual Reports Program, and the library and general customer service.

The Division oversees the following numbers of utilities:

Investor owned electric utilities	5
Electric cooperatives	11
Gas utilities	7
Telecommunications companies	754

Water utilities companies	329
Sewer companies	12
Water and Sewer	15
Irrigation Companies	1

COMPLIANCE AND OTHER ITEMS

Through a computerized database designed and established by the Administrative Services Section, Staff monitored 756 compliance items and generated 266 compliance documents.

Other items processed by the Administrative Services Section during FY 1997-1998 include:

Staff Reports	210
Testimony	54
Open Meeting items	317
Central File items	1,425

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 30,000 periodicals and resource materials have been catalogued.



DOCKET CONTROL CENTER

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

The Docket Control Center maintains the official records for the Utilities and Securities Divisions of the Corporation Commission. In this regard, Docket Control's functions are

similar to a court clerk's office. The Docket Control Center also assists the public and staff in retrieving the files and transcripts of cases for use in research.

During the months of August through December a new computerized case management system for processing all documents was designed and implemented by Staff. Major activities accomplished during FY 1997-1998 include the following:

Hearing Notices Processed	475
New Applications for Hearings Processed	
Utilities	791
Securities	35
Filings Docketed and Distributed	8078
Responses to	
Inquiries/Research Assistance	10,616
Certifications	224
Open Meeting Items Processed	560
Opinion and Orders Mailed	718
Transcripts Logged & Microfilmed	
Utilities	142
Securities	38
Other Dockets Prepared for Microfilming	358



OPEN MEETINGS

The Commission conducts regularly scheduled and special Open Meetings for the purpose of decision making. During FY 1997-1998 the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Wtr Irr	Sewer	Tel Comm	RR	Other	Total
Rates	1	2	32	2	7	0	0	44
Financing	4	0	21	0	0	0	0	25
Fuel								
Adjustors	0	7	0	0	0	0	0	7
Tariffs	42	0	7	0	65	0	0	114
Certificates*	0	0	39	4	142	0	0	185
Grade								
Crossings	0	0	0	0	0	11	0	11
OSC	0	1	7	0	0	0	0	8
Complaints	2	1	12	0	2	0	0	17
Other**	32	9	19	0	80	0	1	141
TOTAL	81	20	137	6	296	11	1	552

*New, Extensions, Deletions, Transfers

** Includes Arbitration, Service for Resale, Interconnection and General Agreements

LEGAL DIVISION

Paul Bullis
Chief Counsel

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 1997-98.

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.

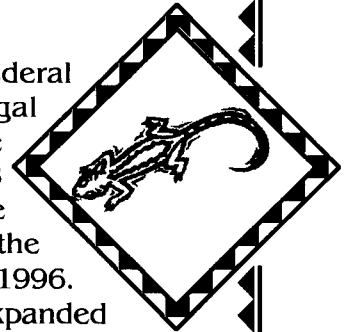
FEDERAL DOCKETS

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").

Among the more important federal proceedings in which the Legal Division appeared on behalf of the Commission during FY 1997-98 were FCC proceedings involving the continued implementation of the federal Telecommunications Act of 1996. Significant issues relating to expanded competition in the provision of local exchange service, universal service mechanisms and funding, as well as proceedings related to the expansion of long distance competition to include the regional Bell Operating Companies dominated the proceedings.

In addition, the FERC continued its efforts at restructuring the interstate aspects of the electric utility industry. FERC Order No. 888, issued during FY 1995-96, affects Arizona utilities which 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 begun restructuring of the electric utility industry within Arizona. 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 large majority of cases filed or pending during FY 1997-98 involved Commission decisions related to restructuring of the telecommunications and electric industries.

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 1997-98 two utilities had active bankruptcy proceedings.

ADMINISTRATIVE MATTERS

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

The Legal Division's involvement in representing the Corporations Division has been an area of increasing activity over the past several years. This has been driven in part by the complete revision of Arizona's statutes governing corporations, effective in 1996. The Legal Division during FY 1997-98 was involved in ongoing litigation related to implementation of the new statutes and to

the Commission's obligation to prevent deceptively similar corporate names.

SPECIAL PROJECTS

The Legal Division participates in the revision of all rules that pertain to the Corporations Division and the Utilities Division, including the Pipeline and Railroad Safety Groups. 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 1997-98 include the rulemakings related to competitive telecommunications services and the restructuring of the electric utility industry.

Several of the State's major utilities had cases before the Commission during FY 1997-98, which required the commitment of all of the resources available to the Legal Division.

Issues surrounding Tucson Electric Power Company ("TEP") continued to consume substantial resources during FY 1997-98, 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 and an application for approval to restructure much of its substantial debt. The notice and application were filed during FY 1996-97 and were acted on by the Commission during FY 1997-98. It is anticipated that TEP issues will require significant involvement by Legal Division for the foreseeable future.

Other major proceedings to which the Legal Division resources were devoted during FY 1997-98 include: The resolution of TEP's holding company application, the Commission, in separate proceedings, considered and approved rate reductions for TEP and Arizona Public Service Company ("APS") during FY 1997-98. In addition, the Commission finally resolved all remaining issues from the last U S West rate proceeding during FY 1997-98 and embarked on an examination of depreciation rates for U S West. The explosion of telephone number usage continued during FY 1996-97, resulting in significant effort and resource



commitment towards the next area code addition in Arizona. Legal Division assisted Utilities Division in this effort.

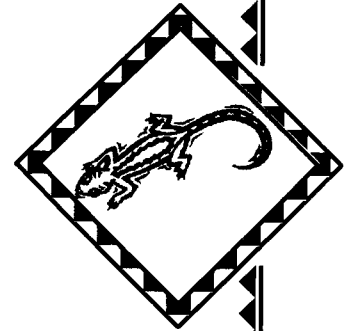
The Commission continues to be engaged in a series of proceedings related to the restructuring of the telecommunications industry. Legal Division has represented the Commission or its Staff in a variety of proceedings related to the emergence of competition in the telecommunications industry. Included have been work shops, task forces, proceedings before federal agencies as well as rule making and other proceedings before the Commission itself. The pace of the emergence of competition in telecommunications heightened following passage of the Telecommunications Act of 1996, which was enacted during FY 1995-96. The Legal Division has been involved in all proceedings at the Commission to authorize competitive telecommunications providers to provide service in Arizona. Many of those proceedings have resulted in litigation in state and federal courts. In addition proceedings held by the Commission as required by the Telecommunications Act have also resulted in litigation in state and federal courts.

The Commission is also engaged in a series of proceedings related to the restructuring of the electric industry. This process continued during FY 1997-98. Additional rules were considered by the Commission to govern the restructuring process, and hearings were held on the issues related to the utilities' potential stranded costs associated with the restructuring. Legal Division has been involved in this process at every stage. Adoption of the rules has also resulted in litigation in state courts. The litigation, and the administrative proceedings necessary to implement restructuring, can be expected to continue into future fiscal years and will continue to require the commitment of significant resources from Legal Division.

All the major cases before the Commission require an advisory staff to be assigned to act as a separate party in order to advise Commissioners and Commissioners' staff without violating the *ex parte* communications rule. Thus, in each of the

above instances, in addition to the need for legal staff as counsel for Utilities Division staff, additional Legal Division personnel are assigned to advise the Commissioners.

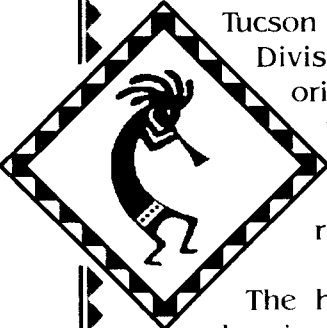
The Commission's rules relating to transactions with unregulated affiliates have been in effect since FY 1992-93. The rules create an ongoing responsibility to consider and process applications and reports under the rules. The filings of applications and reports under the rules, all of which require scrutiny by Legal Division attorneys, can be expected to continue indefinitely.



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 Division as well 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 statewide 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 Fund. All sources except the Federal Grant are subject to appropriation. 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 Assess 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 Division, excluding Railroad Safety, and the Legal Division 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.

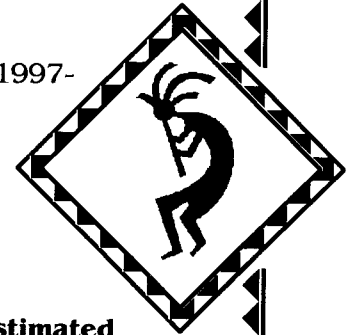
Historically, the Commission has generated significantly more revenue from securities and broker registrations, corporation filing fees, fines, and miscellaneous service charges than its General Fund requirements. All revenue of this type flows to the state General Fund and is used to defray state government operation costs.

The following tables portray revenue and expense data for FY 1996-97 (Actual), FY 1997-98 (Report Year Actual), and FY 1998-99 (Estimated).

**TABLE 1
REVENUE BY SOURCE**

	<u>Actual 1996-97</u>	<u>Actual 1997-98</u>	<u>Estimated 1998-99</u>
Corporation Filing Fees*	\$5,600,000	\$ 6,034,982	5,700,000
Security and Broker Fees*	6,900,000	10,887,804	9,500,000
Miscellaneous Service Charges*	80,000	94,595	95,000
Fines and Forfeitures*	300,000	189,713	190,000
Utility Assessments	5,440,200	6,649,080	6,650,000
Pipeline Safety Revolving Fund-Fines	0	10,000	10,000
Sec. Regulatory & Enforcement Fund	1,925,100	2,342,542	2,350,000
Sec. Investment Mgt. Act Fund	847,200	613,882	615,000
Public Access Fund	1,286,600	1,635,897	1,635,000
Federal Grant	<u>185,000</u>	<u>236,457</u>	<u>236,000</u>
TOTAL	\$22,564,100	\$28,694,952	28,706,900

* Deposited in the State General Fund



**TABLE 2
EXPENDITURES BY BUDGET PROGRAM**

	<u>Actual 1996-97</u>	<u>Actual 1997-98</u>	<u>Estimated 1998-99</u>
Administration & Hearing Divisions	\$ 2,044,000	\$ 1,813,400	\$ 1,783,300
Corporation Division	2,616,600	3,194,300	3,280,000
Securities Division	3,964,400	3,806,900	4,425,400
Railroad Safety Group (Utilities Division)	503,900	430,400	636,100
Utilities Division	4,959,800	4,670,900	5,244,300
Legal Division	<u>1,004,400</u>	<u>1,102,600</u>	<u>1,135,300</u>
TOTAL	\$15,093,100	\$15,018,500	\$16,504,400

**TABLE 3
EXPENDITURES BY FUND SOURCE**

	<u>Actual 1996-97</u>	<u>Actual 1997-98</u>	<u>Estimated 1998-99</u>
General Fund	\$5,155,800	\$ 5,525,500	\$ 5,843,700
Arts Trust Fund	28,000	29,300	30,300
Securities Regulatory & Enforcement	2,068,200	1,776,800	1,959,500
Securities Inv. Management Act Fund	551,500	576,000	658,400
Utility Regulation Revolving Fund	5,954,400	5,645,800	6,504,900
Public Access Fund	1,203,400	1,218,400	1,507,600
Pipeline Safety Revolving Fund		<u>93,200</u>	
TOTAL	\$15,093,100	\$15,018,500	\$16,504,400



CORPORATION COMMISSIONERS SINCE STATEHOOD

A.W. Cole	Democrat	1912-1917
W.P. Geary	Democrat	1912-1915
F.A. Jones	Democrat	1912-1919
Amos A. Betts	Democrat	1917-1933
		1938-1945
David F. Johnson	Democrat	1919-1924
Loren Vaughn	Democrat	1921-1932
W.D. Claypool	Democrat	1925-1930
Charles R. Howe	Democrat	1931-1936
Wilson T. Wright	Democrat	1933-1953
John Cumnard	Democrat	1933-1934
W.M. Cox	Democrat	1935-1940
William Peterson	Democrat	1941-1946
William Eden	Democrat	1944-1947
William T. Brooks	Democrat	1947-1958
Yale McFate	Democrat	1947-1948
Mit Simms	Democrat	1949-1958
Timothy D. Parkman	Republican	1954
John H. Barry	Democrat	1955-1956
E.T. "Eddie" Williams, Jr.	Democrat	1957-1968
George F. Senner, Jr.	Democrat	1959-1962
A.P. "Jack" Buzard	Democrat	1959-1962
John P. Clark	Republican	1963-1964
Milton J. Husky	Democrat	1965-1970
Dick Herbert	Democrat	1965-1971
Charles Garland	Republican	1969-1974
Russell Williams	Republican	1970-1974
Al Faron	Republican	1970-1976
Ernest Garfield	Republican	1973-1978
Bud Tims	Republican	1975-1983
Jim Weeks	Democrat	1977-1982
Stanley Akers	Republican	1979-1980
John Ahearn	Democrat	1980-1981
Diane McCarthy	Republican	1981-1984
Richard Kimball	Democrat	1983-1985
Junius Hoffman	Democrat	1984
Marianne Jennings	Republican	1984
Sharon Megdal	Democrat	1985-1986
Renz Jennings	Democrat	1985-present
Marcia Weeks	Democrat	1985-1996
Dale Morgan	Republican	1987-1995
Carl J. Kunasek	Republican	1995-present
Jim Irvin	Republican	1997-present



