

**ANNUAL  
REPORT  
1976-77**

**Arizona  
Corporation  
Commission**

**INSIDE**

The Commissioners ..... 3  
Preface ..... 5  
Administration ..... 6  
Hearing Division ..... 7  
Incorporating Division ..... 8  
Securities Division ..... 10  
Motor Transportation Division ..... 11  
Authority ..... 14  
The Challenge ..... 15  
Utilities Division ..... 17

# ARIZONA CORPORATION COMMISSION

## 65th ANNUAL REPORT 1976-77 FISCAL YEAR

July 1, 1976  
to  
June 30, 1977

Bud Tims, Chairman

Ernest Garfield, Commissioner

Jim Weeks, Commissioner

Donald E. Vance, Executive Secretary

Steven Schlueter, Controller

Evo J. De Concini, Southern Arizona Representative

Sybil Smith  
Administrative Director

Barry M. Aarons  
Incorporating Director

Rose Sandoval  
Motor Carrier Director

Frank Bowman  
Safety and Tariff Director

Matthew J. Zale  
Securities Director

Robert G. Kircher  
Utilities Director

State Office  
2222 West Encanto Boulevard  
Phoenix, Arizona 85009  
(602) 271-3624

Southern Arizona Branch  
415 West Congress Street  
Tucson, Arizona 85701  
(602) 882-5555

BUD TIMS  
CHAIRMAN  
ERNEST GARFIELD  
COMMISSIONER  
JIM WEEKS  
COMMISSIONER



DONALD E. VANCE  
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

2222 WEST ENCANTO BLVD.  
PHOENIX, ARIZONA 85009

The Honorable Wes Bolin  
Governor of Arizona  
State Capitol  
Phoenix, Arizona 85007

Dear Governor Bolin:

Transmitted herewith is the 65th Annual Report of the Arizona Corporation Commission for the fiscal year ending June 30, 1977.

During the past year we have directed our emphasis to one of planning for the future in order to anticipate problems rather than reacting on a crisis basis. This approach is reflected differently in each of our divisions.

In addition, we have begun to look at our administrative rules, primarily those pertaining to transportation, with the intention of eliminating unnecessary restrictions and thereby placing a greater emphasis on market forces to set levels of rates and services.

These efforts we hope to continue during the coming year.

Respectfully submitted,

ARIZONA CORPORATION COMMISSION

A handwritten signature in cursive script that reads "Bud Tims".

Bud Tims  
Chairman

## THE COMMISSIONERS



### **Bud Tims** **Chairman**

*Elected:*  
*Term Expires:*

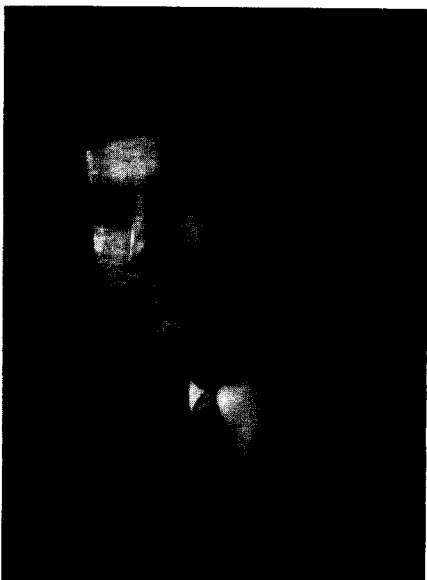
*January 1975*  
*January 1981*

Bud Tims, former Mayor of Scottsdale, is a graduate of Los Angeles College of Optometry and is a Fellow of the American Academy of Optometry. He maintained a successful optometry practice in Scottsdale for many years prior to his election to the Commission.

After serving a term on the Scottsdale City Council, in January 1966 he was appointed to the Office of Mayor, a position to which he was reelected in 1966, 1968, and 1972.

From 1967 until 1974, Dr. Tims served as Chairman of the Maricopa Association of Governments. He was an active member and Past Treasurer of the League of Arizona Cities and Towns. From 1968 to 1974, he served as a Member of the Board of Directors of the National Association of Regional Councils.

Dr. Tims serves on the Administration and Personnel Committee of the National Association of Regulatory Utility Commissioners.



### **Ernest Garfield**

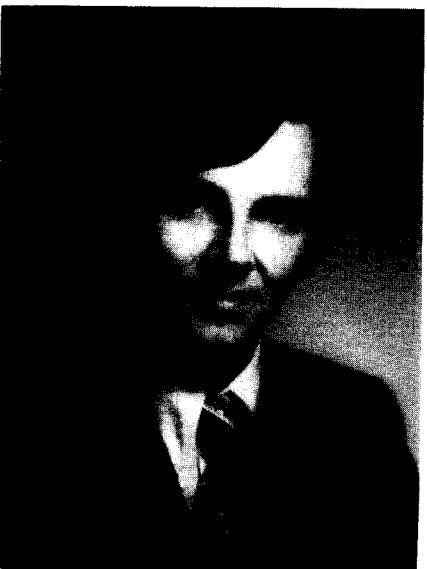
*Appointed:*  
*Elected:*  
*Term Expires:*

*January 1973*  
*January 1974*  
*January 1979*

Ernest Garfield, former State Senator and State Treasurer, was appointed to the Commission by Governor Jack Williams and then elected to a four-year term.

A native Arizonan, he received a B.A. degree from the University of Arizona and Bachelor and Masters degrees from the Thunderbird Graduate School of International Management. As Lieutenant in the U.S. Army, Field Artillery from 1952 through 1955, he served during the Korean conflict. After being elected to the Arizona State Senate in 1967, Mr. Garfield served on the Appropriations, Education, Judiciary, Commerce and Industry, Natural Resources, and Labor Management Committees as State Senator. He was appointed Deputy State Treasurer in 1970 and elected State Treasurer in November 1970.

Mr. Garfield served as President of Western Conference of Public Service Commissions, member of the Governor's State Fuel and Energy Advisory Committee and Chairman of the Committee on Energy Policy of National Association of Regulatory Utility Commissioners.



### **Jim Weeks**

*Elected:*  
*Term Expires:*

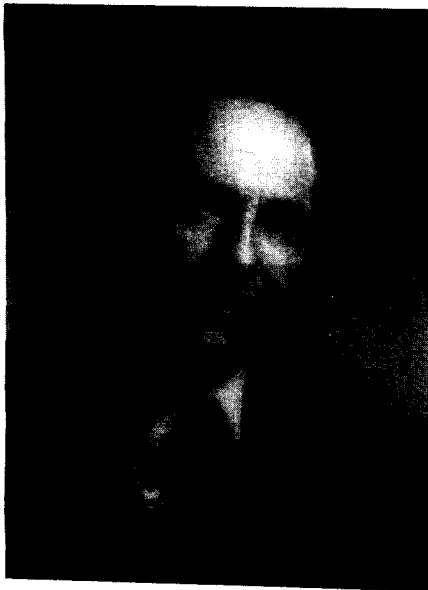
*January 1977*  
*January 1983*

Jim Weeks served as City Councilman for the City of Phoenix from 1974 through 1976 where he served as Chairman of both the City Council Subcommittee on Responsiveness and City Council Subcommittee on Public Service Employment. Prior to his election, he served as Financial-Secretary, Business Manager eight years for the Iron Workers Local #75, encompassing all of Arizona.

A native of Canada, he moved to Arizona 27 years ago where he completed High School and attended the University of Arizona in Tucson. He was in the National Guard from 1962 to 1971. While in Tucson he served as President of the Southern Arizona Building Trades Council and as a member of the Tucson Planning and Zoning Commission. In Phoenix he participated as a member of the State AFL-CIO Executive Board, Phoenix Construction & Building Trades Council, and the Central Trades Council.

He is interested in Youth Activities and served as Task Force Coordinator for the construction of the Boys' Clubs in Yuma and Flagstaff, and as a Board Member of Youth Opportunities Unlimited.

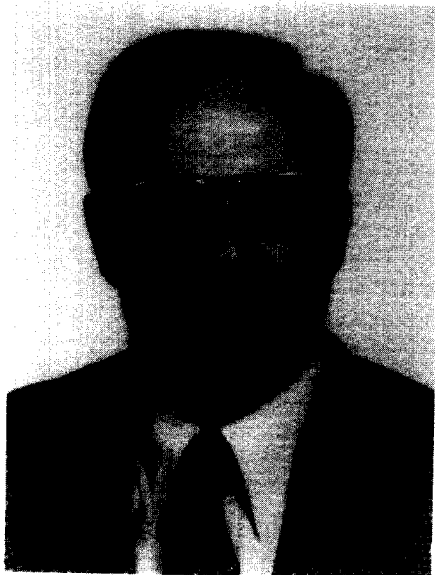
He serves as Chairman of the Arizona Occupational Safety & Health Act Review Board.



**Donald E. Vance**  
**Executive Secretary**

Don Vance was appointed Executive Secretary in January, 1976. After serving with the U.S. Army in Korea, he attended the University of Southern California and was transferred to Phoenix in 1956 with I.B.M. Corporation. He has served in managerial capacity for institutional and private businesses and has been president of his own marketing and sales company since 1969.

Mr. Vance is a National Director of the Navy League of the United States and Affiliate Information Officer of the United States Naval Academy. Mr. Vance has been very active in civic and military organizations and recently received a citation from the Secretary of the Navy.



**Evo J. De Concini**  
**Southern Arizona Representative**

Evo J. De Concini has managed the Tucson Office and represented the Commission in Southern Arizona for the past 12 years. A resident of Tucson for almost 30 years, Mr. De Concini is keenly aware of the problems facing the people of Southern Arizona. He has worked diligently to bring government to the people, eliminate red tape and cut out bureaucracy as much as possible. He believes that by resolving problems at the local level both the public and the Commission are better served. Mr. De Concini graduated from the University of Arizona and furthered his education at the University of Arizona Law School.

In carrying out his philosophy of bringing "government to the people" as well as saving the taxpayers thousands of dollars, during the past year Mr. De Concini, as Hearing Officer, heard almost one hundred (100) cases for the Commission throughout Southern Arizona. He also represents the State of Arizona as a member of the Inter-State Commerce Commission Joint Board and hears all the cases involving the State of Arizona and the adjoining states.

**ROSTER OF CORPORATION COMMISSIONERS SINCE STATEHOOD**

|                   |           |                       |              |
|-------------------|-----------|-----------------------|--------------|
| A. W. Cole        | 1912-1918 | Mit Simms             | 1949-1958    |
| W. P. Geary       | 1912-1918 | Timothy D. Parkman    | 1953-1954    |
| E. A. Jones       | 1912-1920 | John H. Barry         | 1955-1956    |
| James A. Betts    | 1917-1933 | E.T. Williams, Jr.    | 1957-1968    |
| David E. Johnson  | 1919-1924 | George F. Senner, Jr. | 1959-1962    |
| Allen Vaughn      | 1921-1932 | A.P. Jack Buzard      | 1959-1964    |
| W. D. Claypool    | 1925-1930 | John P. Clark         | 1963-1964    |
| Charles R. Howe   | 1931-1936 | Milton J. Husky       | 1965-1970    |
| Wilson I. Wright  | 1933-1953 | Dick Herbert          | 1965-1971    |
| John Cumnard      | 1933-1934 | Charles H. Garland    | 1969-1975    |
| A. M. Cox         | 1935-1940 | Russell Williams      | 1970-1973    |
| Arnos A. Betts    | 1937-1945 | Al Faron              | 1971-1977    |
| William Peterson  | 1941-1946 | Ernest Garfield       | 1973-present |
| William Eden      | 1944-1945 | Bud Tims              | 1975-present |
| Yale McFate       | 1947-1948 | Jim Weeks             | 1977-present |
| William I. Brooks | 1947-1958 |                       |              |

## PREFACE

The Arizona Corporation Commission was created by Article XV of the Arizona Constitution at statehood in 1912. It is composed of three Commissioners elected by the people for a six year term, with one Commission seat standing for election every two years. In the case of a vacancy the Governor appoints a Commissioner who must stand for election at the next general election to fulfill the unexpired term. The Commission is required to maintain its chief office at the State Capitol which is currently located at 2222 W. Encanto Boulevard.

The Commission operates currently in five areas of responsibility. They include Motor Transportation, Utilities, Securities, Incorporating, and Administrative. This report will give further delineations of the scope and authority of these jurisdictional areas.

The functional scope of authority stretches from internal administration with the various budgetary and personnel considerations incumbent on any of the State agencies of our size to strict regulatory requirements of Motor Carriers and Utilities. Inside these parameters includes the full realm of administration filing, registration, investigation, authority, review and regulation, just to mention a few areas.

## ADMINISTRATIVE DIVISION

The Executive Secretary, Donald E. Vance, serves as Chief Executive Officer and is responsible for the Commission's internal operation. The Administrative Division directs and coordinates the activities of the various divisions providing management, planning, accounting, budgeting, public information, intergovernmental liaison and Administrative support functions. The Executive Secretary is appointed by the Commissioners.

### Controller

A major change instituted in the Commission during this fiscal year was the addition to the Administrative Division of Mr. Steve Schlueter as Controller. It marked the first time in the history of the Commission that a Controller served in internal coordination. Mr. Schlueter comes to the Commission from the Missouri Public Utilities Commission where he served as Assistant Controller.

### Data Processing Overview

As part of an internal overview conducted by the Commission, the Controller brought in an expert computer analyst to review the Data Processing possibilities for internal adaptation within each division. This includes the planning for on-line computer capabilities in the Incorporating Division which will expand on their existing computer operations, review of existing computer uses in the Motor Transportation Division and the changes needed to improve that operation and the planning for computer capabilities for better data access in Utilities and Securities.

The Commission has been successful in coordinating personnel matters and various budgetary reviews through the Administrative Division and requests for reclassification of personnel, special allocations of funds to meet new program needs. Relations with the various agencies including the Department of Administration, Treasurer's office, Governor's office, legislative and specifically, the Joint Legislative Budget Committee have been improved. Internal govern-

mental review and audit has now become an ongoing procedure within the Commission. Through these efforts, the Administrative Division can direct and coordinate the activities of other Commission divisions and thus provide Arizona with an efficient and effective regulatory program.

### Southern Arizona Office

All the functions of the Arizona Corporation Commission as they affect public service corporations and the public of Southern Arizona in general are performed by a well-trained staff in our Tucson Office. The demand for these services is steadily increasing as the public becomes more and more aware of the Commission's capabilities in Tucson as well as for the public desire to save time and money.

During the fiscal year, the Commission established a branch of

the Incorporating Division in Tucson and hired Mr. Reuben M. Payne, a highly qualified, seasoned attorney to set it up and supervise it. The appreciative response from the Legal and Accounting professions as well as the almost instantaneous barrage of document filings, fees being collected and the requesting of information, is solid proof that the Commission's decision to establish a branch of the Incorporating Division in Tucson was a wise one. More information regarding this Division can be found in the Incorporating segment of this Report, but it should be noted, that of the approximately 4,200 calls and "walk-ins" per month handled by our Tucson Office, almost half are for the Incorporating Division. The remainder pertain to the Utilities Division, Securities Division, Administrative/Hearing Division and Motor Transportation Division, all of which are represented in the Tucson Office.

## CASHIER'S REPORT

July 1, 1976 Through June 30, 1977

| Division                       | Revenue        |
|--------------------------------|----------------|
| Administrative (Misc. Refunds) | \$ 2,016.21    |
| Incorporating                  | 1,502,043.09   |
| Utilities/Hearing              | 1,879,993.73   |
| Motor Carrier                  | 654,224.70     |
| Securities                     | 249,679.91     |
| TOTAL                          | \$4,287,957.64 |

## CONSOLIDATED BUDGET ANALYSIS

65th Fiscal Year  
1976 — 1977

| Division          | Actual Expense<br>1976 — 1977 | Appropriation<br>1976 — 1977 |
|-------------------|-------------------------------|------------------------------|
| Administration    | \$ 548,869                    | \$ 563,524                   |
| Incorporating     | 387,605                       | 408,501                      |
| Utilities/Hearing | 943,216                       | 1,042,300                    |
| Motor Carrier     | 1,018,019                     | 1,058,500                    |
| Securities        | 349,993                       | 451,300                      |
| TOTAL             | \$3,247,702                   | \$3,524,125                  |

| Division          | Appropriated<br>1977 — 1978 | Requested<br>1977 — 1978 |
|-------------------|-----------------------------|--------------------------|
| Administrative    | \$ 644,100                  | \$1,072,300              |
| Incorporating     | 457,300                     | 484,100                  |
| Utilities/Hearing | 1,222,900                   | 1,403,300                |
| Motor Carrier     | 1,458,200                   | 1,980,100                |
| Securities        | 560,500                     | 860,100                  |
| TOTAL             | \$4,343,000                 | \$5,799,900              |



## HEARING DIVISION

The conduct of a hearing is an indispensable prerequisite to each and every determination made by the Commissioners. In connection with issues related to entry, rate-making and service complaints, among numerous others, the gavel dropped approximately 1000 times to signal the commencement of the process.

The receipt of evidence and argument in connection with the hearings was a responsibility of the Commission's hearing officers who, after each hearing, submitted a recommendation to the Commissioners in the form of proposed findings of fact, conclusions of law and orders. Former Assistant Attorney General, Andrew W. Bettwy was appointed this past year to serve as the Commission's Chief Hearing Officer. Along with Bettwy are Hearing Officers, David C. Kennedy and Stuart B. Schoenburg.

With respect to each matter submitted the Commissioners' deliberations involved a review of the entire record, including the reporter's transcript, the documentary evidence and the hearing officer's recommendation.

Maximum utilization of hearing officers by the Commissioners is motivated by an effort to free the Commissioners from on-the-bench time constraints in order to direct the required attention to critical, day-to-day decision-making and policy-making responsibilities.

## INCORPORATING DIVISION

The Incorporating Division, under the direction of Division Director, Barry M. Aarons and Assistant Director, Caroline G. Chavez during the 1976-1977 fiscal year, had its first experience with the new Arizona Business Corporation Act and computerized services. Various changes and activities took place and are reflected in this report on the responsibilities and activities of this division.

### Responsibilities

Any organization operating in Arizona as a corporation must file all required documents with the Incorporating Division to receive their authorization. Documents to be filed with the Division include: articles of incorporation, application of foreign corporations to transact business in Arizona, business trusts, professional corporations, amendments to articles of incorporation, merger and consolidation data, dissolutions and withdrawals of corporations, restated articles, corporation name changes, corporation renewals, appointments of statutory agents, whether the organization will be operated for profit or non-profit, and whether it is based in Arizona or has been organized previously in another state or country.

Each of these items have separate legal requirements as to their contents which are spelled out in the Corporation statutes, and it is the responsibility of the Division to determine that documents presented for filing conform to these requirements. Corporation law in Arizona, for the most part, is covered in the Arizona Revised Statutes, Title 10.

Every corporation registered with the Incorporating Division is required by statute to file an annual report as of the end of their fiscal year and pay the annual fee set forth in the statutes. The form for filing this annual report is mailed to each corporation at the last address the Division has in their records. Since the authority of a corporation to do business in Arizona can be revoked if an annual report is not filed when due, it is very important that each corporation keep their address current in the records of the Division. While the Incorporating

Division does not have any investigatory or regulatory powers, all information filed is public information and available for inspection. Copies of documents may be secured at a minimal fee and certified if required.

### Activity Report

The 1976-1977 fiscal year was dedicated in the Incorporating Division, towards the improvement of our organization and procedures with a goal of more efficient service.

In terms of organizational structure of the Division, the various subsections in the Division were redefined during the last six months of the fiscal year. The Division consists of the Incorporating section, responsible for all original filings, amendments and mergers; the Annual Report section, responsible for all annual filings, changes pursuant to those filings, revocation, reinstatement and inquiries; and the Data Center which provides public access to all documents and information on all corporations whether existent or dead. Regrades were accomplished so that for the first time in history of the Division, employees doing similar or identical tasks were carrying the same job classification. Upward mobility for division employees became available due to this regrading procedure. An employee of the Incorporating Division can now expect to have a chance for promotion within the Division providing true career opportunities.

In October of 1976, services were offered by the Incorporating Division to all residents of Southern Arizona in the Tucson office. In late summer of 1976, former Cleveland attorney, Reuben Payne, was hired as Administrative Assistant in the Tucson office. His primary responsibility in that office is to handle the Incorporating Division operations for the Division Director in Tucson. Over the year this service was expanded, and on an as-needed basis, staff was increased. After eight months we can see that the operation of a Tucson office provides a needed public service to Southern Arizona. Original filings in the Tucson office which would normally be done by the Incorporating Section in Phoenix, amounted to as much as 18% of the total work load in that section.

In addition, 2,000 calls per month and hundreds of walk-in customers in the Tucson area are now able to get their questions answered by local personnel.

During the fiscal year we completed the first full year of operation on a computer system. Changes included coordination of monthly informational runs and expansion of the Data Base. Investigation was undertaken to move to on-line computer input, thus eliminating key punch requirements out of the agency. Further investigation was undertaken towards eventual implementation — we propose to request it in the 1978-1979 budget — of a full on-line computer capability providing both inquiry and input within our division. The systems extensions utilized, including pre-printing of reports and preparation of delinquent and revocation notices, further stream-lined the operation.

Through cooperation between Incorporating and Securities personnel, we are better equipped procedurally to provide law enforcement on federal, state, county and municipal levels with fast, complete information needed in criminal investigations. Many suggestions from these various law enforcement agencies and especially the Attorney General and our Securities Division have been implemented to further aid in this area. The expansion of the Data Base to include officers and directors provided the information that will enable us to cross-reference people and corporations for investigative purposes. Through cooperation with other agencies, we will soon be able to have a quarterly print-out providing this cross-reference system.

Budgetary restraints were instituted in all areas. In Data Processing changes in computerization and systems extensions were minimized and the number of runs on the computer were scheduled more carefully. Paper expenses were cut down by utilizing more efficient style in the various forms and requirement sheets prepared. Temporary employees were used only on a seasonal basis resulting in large financial savings in the area of personnel services, and although three new full-time employees were added for the 1977-1978 fiscal year (mostly to compensate for the transfer of employees to the Tucson office), it was anticipated that no new employees would be requested for the 1978-1979 fiscal year. In all, what was projected to be a \$14,000 deficit during fiscal 1976-1977 was turned around through these savings and the transfer of \$25,000 to the division for Data Processing to a \$24,000 surplus by the end of the fiscal year. It is anticipated that these savings will be retained during fiscal 1977-1978.

The first revocation under the new Arizona Business Corporation Act was completed in May, eliminating over 5,000 dormant and non-compliant corporations. This revocation constituted 11% of the total number of live corporations existing at that time. The entire process required cooperation between our office and the Data Processing Department over a four month period. The revocation procedure was placed in the hands of one employee who was able to develop a complete revocation processing and reinstatement procedure. It was anticipated that with the goals set by this revocation, regular monthly revocation process would take place by the end of the first quarter of fiscal 1977-1978.

Filings which had in the past taken anywhere from three to fifteen working days are now completed in only one day, and in many cases can be completed in a matter of minutes. A new innovation referred to as "clerk of the day" provides an examiner on a rotating basis who can accept and process filings from walk-in customers

or by previously set appointment. All emergency filings are handled in this manner. Returns occurring from the mistakes on filings were reduced dramatically to only 10% due mostly to a system of personal attention on the part of the Incorporating Examiners.

The general work flow for fiscal 1976-1977 is reflected in the following statistical analysis...

### INCORPORATING SECTION

|                                    | Phoenix Office | Tucson Office | Total |
|------------------------------------|----------------|---------------|-------|
| <b>Domestic Articles Filed</b>     | 4956           | 584           | 5540  |
| <b>Foreign Authorization Filed</b> | 843            | 19            | 862   |
| <b>Returns for Correction</b>      | 1649           | 9             | 1658  |
| <b>Amendments</b>                  | 1844           | 106           | 1950  |
| <b>Mergers</b>                     | 327            | 1             | 328   |
| <b>Certifications</b>              | 2540           | 292           | 2832  |
| <b>Certificates of Compliance</b>  | 1790           | 109           | 1899  |

### ANNUAL REPORT SECTION

|  |             |
|--|-------------|
| <b>Revenue</b>                           | \$1,059,197 |
| <b>Number of Annual Reports Sent Out</b> | 41,146      |
| <b>Number of Annual Reports Received</b> | 33,333      |
| <b>Number of Revocations</b>             | 5,063       |
| <b>Number of Reinstatements</b>          | 177         |
| <b>Changes:</b>                          |             |
| Fiscal Date                              | 2,047       |
| Address Changes                          | 5,925       |
| Statutory Agent                          | 9,589       |
| Total                                    | 17,561      |

### DATA CENTER SECTION

|                              |         |
|------------------------------|---------|
| <b>Service of Process</b>    | 244     |
| <b>Counter Customers</b>     | 13,112  |
| <b>Documents Microfilmed</b> | 234,000 |

In addition to handling the above documents, the division averages approximately 500 calls per day to the Data Center on informational requests resulting in approximately 126,000 incoming calls last year.

## SECURITIES DIVISION

The emphasis of Securities in the Arizona Corporation Commission this year has been the new look of the Division. For the first time, our Division has had the necessary legal and accounting expertise to begin the job of reviewing applications, investigating offerings and recommending prosecution from apparent violations. Director, Matt Zale and Assistant Director Dee Harris have developed an organizational capability of proper and thorough investigation in securities' matters. Although one of the functions of the Securities Division is the investigation of complaints of securities law violations, and recommending court action when necessary, the old adage "an ounce of prevention is worth a pound of cure" is particularly true in the securities area.

The Securities Division believes it is better to prevent the loss of an investor's savings in a stock scheme than to spend months unraveling it after the corporate barn door is closed. Accordingly, the Securities Division has begun a public educational program to alert investors on how to protect their hard-earned savings from stock swindles.

One of the first steps in this educational program has been the issuance of a message to Arizona investors entitled, "Ten Steps In Investigating Before You Invest." We are disseminating this message to civic and social groups.

Through the help of a special transfer of funds approved by the Joint Legislative Budget Committee in September of 1976, the Securities Division was able to hire two staff accountants and two securities specialists with legal background for its complex financial work.

The reorganization of the Division is continuing and is aimed at making it one of the most competent among state securities divisions in the country in its work of protecting Arizona investors.

The Securities Division is responsible for three areas of regulation in Arizona: registration of securities, registration of salespeople and broker-dealers, and investigations and enforcement of any violation of securities laws.

### Securities Registration

Any security offered for sale to an Arizona resident is examined to assure that only companies which are not "insolvent, or in an unsound financial condition" or whose sales would not be "unfair or inequitable" be allowed to sell securities to the public. Also, applications by brokers and salespeople to sell securities in Arizona must be examined to determine financial soundness and to assure registration of those with "integrity," "good business reputation," and who are "qualified by training." All securities salespeople must pass examinations on securities laws and regulations and be fingerprinted. The department administers the examinations and fingerprinting, which attempt to assure that only legitimate companies and stock brokers, selling sound securities, are registered in Arizona.

### Enforcement

The Division is charged with responsibility to investigate any violations of the Securities Act of Arizona, Chapter 12, 44-1801 through 44-2037. This encompasses violations of the law by companies, promoters, officers and directors involving fraud or misrepresentation in the sale of securities. It encompasses investigating complaints received from the public, from Arizona law enforcement agencies, from the U.S. Securities and Exchange Commission, securities directors of other states, and any other source. After investigation, public actions may be taken as follows:

1. Issuance of a Cease and Desist Order
2. Referral to the Attorney General's office for civil injunctive action in the courts, including appointment of a receiver
3. Referral to the Attorney General's office for criminal action
4. Revocation, suspension, or denial of a broker-dealer or salesperson's registration.

Public hearings before officers, the full Commission, or the courts are necessary in connection with the above.

### Goals

It is the goal of the Securities Division to review carefully each new securities filing to attempt to assure that securities of sound, solvent or non-fraudulent companies are cleared for public sale. If thorough and effective enforcement of the securities law to protect investors is to be achieved, the Division requires a professional staff of securities specialists with legal and accounting backgrounds. The Commission is currently striving to attain such a professional standard.

It is the further goal of this division to effectively investigate and prosecute, in conjunction with the Attorney General's office, large-scale securities frauds perpetrated on the residents of this state.

With its new professional staff, joint enforcement efforts with other Arizona agencies have taken place, including the Department of Public Safety, Insurance Department, Real Estate Department, Banking Department, State Accountancy Board, Municipal police officials, Attorney Generals office county attorneys, as well as federal agencies. The number and complexity of complaints of securities law violations from the public and other law enforcement agencies that are being investigated has increased.

The Division for the first time in its history has become actively engaged in numerous court actions seeking injunctive relief against law violators.

Several court actions in Maricopa County Superior Court as well as the Supreme Court of Arizona were brought during the year by the Arizona Corporation Commission and the Securities Division as plaintiffs seeking court orders to stop securities law violations.

As staff were added during the year, the Division became more active in the issuance of Cease and Desist Orders and investigations for criminal prosecution of securities violations.

Registration activity by the Division during the 1976-1977 fiscal year was as follows:

|           |                                      |
|-----------|--------------------------------------|
| 1056      | Securities issues registered         |
| 1000      | Billion dollar value                 |
| 1000      | Exemptions from registration granted |
| 1000      | Broker-dealers registered            |
| 1050      | Securities salespeople licensed      |
| 1049 61-9 | Registration fees collected          |

## MOTOR TRANSPORTATION DIVISION

### Overview

In transportation, because of Arizona's historical restrictiveness, our overall approach should be one of removing these restrictions wherever possible to move toward a system more in keeping with free enterprise concepts and which will, to a greater degree, allow competition and market forces to set levels of service and prices. We have made some steps in this direction with our repeal of MC-21, our one-day tariff filing, the legislation we introduced to place taxi cabs in regulated competition, and some of our recent orders which authorize carriers to file rates for our approval up to a certain maximum rather than an absolute. We have also begun an examination of other ACC Administrative Rules for possible repeal or modification. These efforts to remove unnecessary restrictions from our Administrative Rules should continue along with a concerted effort to amend the necessary statutes.

As of the close of the fiscal year 1976-1977, the Commission had completed the prerequisites for the creation of the merged Motor Transportation Division to handle the complex areas of jurisdiction concerning motor, railroad, emergency vehicles and air carrier operations. The new reorganized Motor Transportation Division, under the direction of Frank Bowman and his Assistant David L. Myers, covers five areas of authority including a Tariff & Rate section, a Motor Carrier Enforcement section, a Railroad Safety section, an Emergency Services section and an Authority section. Bowman has been with the Commission since 1962, serving in various capacities related to the field or regulated transportation and prior to that, as a member of the Arizona House of Representatives.

There has been, over the years, some confusion as to the definition of carrier types and the scope of the Commission's regulatory authority in this area. The Commission primarily draws its jurisdiction in this area from Sections 2 and 10 of the Arizona Constitution which states that these carriers "are declared to be common carriers and subject to control by law"

and that "all corporations, other than municipal, operating as common carriers, shall be deemed public service corporations."

The law defines carriers as resting in one of three distinct categories: common carriers, contract carriers, or private motor carriers.

Common carriers are defined by law as any person employed in the transportation of property and/or passengers for compensation. Contract carriage is generally considered as carriage of passengers or property for compensation which is not included or considered common carriage. For example, if a carrier signs a contract with a business to haul wares of that business between points, then that carrier would be a contract carrier. Private carriers are those carriers not considered to be common or contract carriers. An example would be a department store which provides delivery of goods purchased in the store where the delivery service is owned and operated by the store and where the delivery is between the store and the customer who purchased the goods or their designees. Any other carrier which does not ask compensation in any manner is a private carrier. Any business where carriage is incidental to the principal business is also considered private.

In order to become a common carrier, a certificate from the Commission must be obtained after a showing to the Commission that the carrier is fit and proper to operate as such and that there is a public need for the service. One other requirement is needed. If there is already a carrier operating over the route or in the territory requested, then the Commission may issue the certificate only when the existing carrier will not provide service deemed satisfactory by the Commission. This provision of law is generally referred to as "regulated monopoly". Arizona is one of only four states which still operates under the regulated monopoly concept.

Not all carriers are covered under regulated monopoly. The law exempts ambulances, funeral coaches, chartered aircraft in an unscheduled service and farm products carriers from the monopoly clause. These carriers merely have to prove fit and proper status and that public convenience and necessity requires the service.

Contract carriers need to show fit

and proper status and that public safety and public use of the highways will not be interfered with. One Arizona court case indicated the difference in that a judgement for common carriage is basically one of regulated monopoly while the judgement under contract carriage is basically a judgement concerning the effect of this use on highway maintenance and safety.

In addition to a statute, the Commission has adopted over the years rules and regulations governing the safety, tariffs and operation of common and contract carriers. Specific regulations governing ambulances and rules governing air carriers are also currently in force as both require intense scrutiny, especially from a safety standpoint.

### Tariff and Rate

State law requires that all tariff filings which result in increased shipping costs must be approved by the Commission at a public hearing where it is the responsibility of the applicant to justify the increase sought.

During fiscal year 1977, the Tariff and Rate Section, under the supervision of Section Chief, Dilles DeWitt, Docketed 140 applications dealing with financial matters on behalf of transportation companies as compared to 60 such requests in fiscal year 1976. This reflects an increase of 133% in rate increase activity. Consumer complaints against carriers rose from 55 in fiscal year 1975-1976 to 106 in fiscal year 1976-1977, an increase of 93%.

The following four rate proceedings reflect the type of rate activity in the transportation field during fiscal year 1977.

In July of 1976, Yuma Bus Company, which provides regular scheduled bus service between Yuma, Arizona and San Luis, Arizona, requested authority to increase passenger fares over the route served. A test year ending December 31, 1975, reflected revenues of \$19,869, direct operating expenses of \$23,644 for a net loss of \$3,775. The applicant requested, and the Commission approved, increases which would produce a net operating ratio of 95%.

The increase was approved by the Commission in October of 1976.

In July of 1976, Arizona Pacific Tank Lines filed an application seeking a 9% increase in rates and charges applicable to the transportation of liquid commodities in bulk. Staff review of the exhibits submitted to support the increase revealed that such an increase was excessive. Prior to the hearing held in March of 1977, the carrier filed an amended application reducing the increase sought from 9% to 7.84%. In June of 1977, the Commission entered its decision granting a 7.84% increase. The pre-hearing audit resulted in cost savings to Arizona shippers of \$2,747.

In October of 1976, Kunkle Transfer and Storage Company, a statewide general commodity carrier, sought increases in freight charges ranging from 5% to 13%. Certain of the rates sought to be increased had been in effect for an excess of 4 years. The average annual increase granted Kunkle in June of 1977 amounted to a low of 2% and a high of 3.2%.

In December of 1976, Joe Conway Trucking Company, a statewide dump truck operation, filed for an increase of 13% in all rates and charges. In February of 1977, a hearing was held which revealed that the present rates produced a sufficient net operating profit. In May of 1977, the Commission entered its order denying the 13% increase.

### Safety Enforcement

This section of the Division is concerned with the safe operation of commercial traffic upon the highways within the state, and economic regulations of the state with regards to the transportation of property and/or passengers for hire. Investigators' duties are to enforce the provisions of the Title 40, Articles 1 and 2, the administrative rules and regulations of the Commission, and other laws of the state relating to public highway use by persons operating motor carriers. Members of this section are all duly constituted peace officers and have completed the Arizona Law Enforcement Officers Advisory Council course. During fiscal 1976-1977 this section saw Mr. J. Patrick Riordan appointed as its Section Chief

following eleven years of service already with the Commission.

During fiscal year 1977, this section was restructured to more effectively utilize the personnel due to a shortage of travel funds. To do this, Port of Entry activity was increased as was the terminal audit program, the latter enabling the Commission to locate and correct problems before the motor carrier entered the state's highways. Strategic locations were established for road patrol activity backed up as the workload demanded by members from other areas, particularly in the establishment of mini-road blocks. Additionally, a concentrated effort was made to clear up a backlog of service complaints through proper investigation. A synopsis of enforcement activity for fiscal year 1977 is outlined:

|                              |        |
|------------------------------|--------|
| Units safety inspected       | 48,859 |
| Warning/Repair orders issued | 41,338 |
| Out of Service vehicle       | 4,145  |
| Out of Service driver        | 360    |
| Terminal Audits              | 434    |
| Terminal Violations          | 4,546  |
| Investigations               | 158    |

Summary of traffic complaints and/or citations issued during this period is as follows:

|                          |       |
|--------------------------|-------|
| No identification stamps | 495   |
| No authority-exempt      | 182   |
| No authority, non-exempt | 147   |
| Safety                   | 4,048 |
| Dangerous drugs          | 121   |
| Hazardous materials      | 231   |
| Other                    | 716   |
| Total citations          | 5,940 |

The program will be enhanced by the construction of new port-of-entry facilities at Nogales, Yuma, and Topoc over the next several years, in which the Commission is participating and which, upon occupation, will increase the efficiency of enforcement activity.

## Railroad Safety

The Railroad Safety Section, under the direction of Section Chief, William Critchley, is responsible for improving safety and reducing deaths and injuries on Arizona's railroads.

During fiscal year 1977, this section inspected and inventoried Arizona's entire rail system, and the rail network in Arizona was found to be in good condition, capable of providing safe and efficient rail freight service to Arizona's industries and communities on a daily basis, twelve months out of each year.

There are six railroads with 3,250 miles of track and 2,000 rail-highway crossings serving 3,000 industries within the state of Arizona. Rail passenger services are provided by AMTRAK, the National Rail Passenger Corporation at Flagstaff, Winslow, Yuma, Tucson, and Phoenix.

Accident statistics show a 50 percent reduction in fatal accidents (16), a 26 percent increase in injuries (241), an 8 percent reduction in derailments (33), and a 51 percent reduction in rail-highway accidents (44) during fiscal year 1976.

Investigations were conducted into 18 complaints, 93 accidents, 8 variance applications, and 4 service modification applications: the Fort Huachuca branch abandonment, closure of the Holbrook agency station, closure of the Globe agency station, abandonment of a portion of the Litchfield branch, and abandonment of a portion of the Globe branch.

Orders were issued for 23 improvements, 5 variances, and 2 service modifications.

## Hazardous Materials

During the last six months of fiscal year 1977, the Railroad Safety Section expanded their hazardous materials capability to include a hazardous materials advisory service for all modes of transportation — rail, highway, and air.

This service is provided to assist carriers, shippers, and receivers of hazardous materials with technical information concerning the transportation of hazardous materials within the state of Arizona.

Advisory services are also available, on a limited basis, to assist first-line emergency services personnel at the scene of public carrier accidents. The following statistics reflect program results for the last six months of fiscal year 1977.

|  |     |
|--|-----|
| Hazardous materials firms:<br>(incomplete)   | 400 |
| Accidents reported:                          | 9   |
| Violations reported:                         | 521 |
| Advisory contacts:                           | 162 |
| Safety presentations:                        | 13  |
| Hazardous materials terminal<br>inspections: | 15  |

## Emergency Vehicles

This activity actually involves three separate and distinct functions: regulation of ground ambulances; regulation of private fire protection services; and regulation of air ambulance services. This involves establishment of standards, investigation of consumer complaints, investigation of accidents, licensing and certification of personnel, and training of vehicular standards. This section is one of the responsibilities of Division Assistant Director, David Myers.

During fiscal year 1977, the section completed one or more inspections of 152 ambulance organizations and 306 vehicles dealing in the treatment and transportation of the sick and injured. Additionally, 90 service complaints were investigated involving an average of 20 manhours per investigation and a total of 9 public hearings were conducted on matters pertaining to ambulance services. The turnover of emergency service personnel continues at a rather high rate, due, we feel to the low salary structure within this industry, with a total of 1271 personnel certified during fiscal year 1977. Classroom presentation by the staff of the Division amounted to 102 hours for the purpose of enhancing the sanitation program for ambulance services, the standards for which were increased at the beginning of fiscal year 1977.

Private fire protection service is provided by two companies to 40,000 subscribers in Arizona's unincorporated rural areas. Service is offered in portions of Maricopa, Pima, Pinal, Santa Cruz, and Yuma Counties. The smaller of the two companies has two stations and ten fire fighting vehicles. The larger of the two has 28 stations, 240 full-time and 170 part-time employees with 80 fire fighting vehicles. During fiscal year 1977, 25 stations and 55 vehicles were inspected and ten consumer complaints were investigated.

It is the goal of this section and the division to provide at least three full inspections annually of emergency equipment which would at present require a 200% increase in the number of inspections being conducted. Only through such an inspection program can a full safety program be implemented to insure the health, safety and welfare of the citizens and visitors to Arizona.

## AUTHORITY

The area of authority is handled and supervised by Rose Sandoval and her Assistant, Diane Massey. During the reporting year, there were from 5,500 to 7,500 motor carriers registered at one time. Over 205 intrastate applications were scheduled for formal hearing and 1,500 applications for authority were filed by interstate carriers. The division issued licenses for 110,000 registered motor vehicles. Revenue derived from regulatory fees amounted to \$651,604.40, an increase of \$71,727.00 from the past year.

Revocations of authority has been intensified because a number of motor carriers have failed to maintain proper insurance coverage, failed to register their motor vehicles annually and numerous other violations. The level of active permits continues to be about the same however, because of the entry of new carriers into this field of transportation.

Every case heard before the Commission is fully recorded and the record is open for public inspection by any party desiring information relating to any matter before the Commission. The staff will assist anyone seeking this information.

A study was made by the Commission to determine if its rules applicable to motor carriers should be modified, repealed, or made less restrictive. Formal hearings were held for the revision of rules applicable to contract carriers and air carriers providing charter service. After months of deliberation and several informal and formal hearings, the Commission repealed Rule R14-5-322 relating to carriers authorized to transport household goods. We believe that in the absence of the regulation that a carrier will be able to perform in a more efficient manner and better serve the general public. Staff will continue to review its rules and revise or repeal those provisions that are outmoded, unenforceable, or overly restrictive.

We intend to seek appropriation for educational seminars. Regulatory studies, programs and seminars on transportation designed for Commission staff personnel are presently being offered by the National Conference of

State Transportation Specialists, through their parent organization, NARUC. The attendance of these seminars would enable staff to have a better understanding of new regulatory concepts and new techniques which are being applied to transportation problems currently confronting the Commission. It also gives us an opportunity to exchange views with persons from a large number of state and federal regulatory agencies on problems of current interest and make us aware of the scope of changes currently taking place in the transportation industry.

The division has a serious storage problem due to inadequate office space. Some of our active files are being stored in a building several miles from the present office facilities. This creates an inconvenience not only for staff, but the general public. We shall continue to work with the Records Center on records retention schedule and the microfilming of motor carrier records.

We continue to show a substantial increase in carrier registration which resulted in an increase in the workload of the division in all of its areas of responsibility. This creates an urgent need for additional staff personnel to assist in the performance of the regulatory functions of the division. The workload has been steadily increasing but despite the growth of this division's jurisdiction and activities the clerical staff assigned to the regulation section of the division has increased by one employee in the past fifteen years. The lack of adequate staff has made it difficult for the division to deal with some problem areas as fully or as quickly as the Commission would like.

Pursuant to the enactment of S.B. 1317 in 1976, the Commission entered into a reciprocal agreement with the State of Oklahoma. This agreement provides that motor carriers who are domiciled in either state and operating motor vehicles in the other state shall be exempt and relieved of the payment of regulatory fees. The summary of activities included in this report reflects that waiving the fees for Oklahoma-based carriers did not decrease the revenues derived from this source. By the next reporting year, we anticipate entering into further agreements with our neighboring states.



## THE CHALLENGE

The most severe challenge facing the Commission today is the regulation of public utilities. In spite of the many regulatory responsibilities borne by the Commission that affect the economic well-being of the state and its citizens, one area of activity — utility rate setting — has become the single public measure of the Commission's performance. Utility rate matters also are consuming an ever-larger share of the Commission's limited financial and staff resources.

In one rate case after another, the Commission is required to render substantial judgments, weighing the apparent interests of the consumers and those of the utilities. But in an inflation economy dominated by increasing scarcity and spiraling inflation, it has become a hopeless proposition in rate proceedings to achieve results that effectively balance consumer demands against the long-term public interest. To the majority of consumers, firm regulation means just one thing: holding the line on energy costs. Yet the public interest also requires firm assurance that adequate energy supplies will be available when they are needed. Energy is as important as water in developing a sound economy and maintaining living standards, and any miscalculation that damages the financial ability of the utilities to provide electricity could cripple the state's economy.

Today's reality is that the cost of producing energy is continuing to rise, and there is little that either the Commission or the companies can do to control the major causes. Under these circumstances, the only real attitude the Commission has in rate proceedings is to postpone consumer rate increases or, better, minimize them over a short period. The more vigorous the Commission is in pursuing these objectives, the more certain it will be faced with an endless round of utility rate cases.

As a practical matter, for example, the Commission has been embroiled in a continuous and continuous rate proceeding with Arizona Public Service Company since the Fall of 1974.

In the long run, the most significant impact the Commission can have on rate cases is by scrutinizing the individual actions to insure that their

construction plans are sound and properly coordinated; that their reserve margins are at the lowest possible level; that their financial planning is sound; and that their fuel programs are farsighted and in the best interest of the consumers; and that management carries out effective cost control programs. But in order to concentrate on these critical issues the Commission cannot be engaged constantly in major rate proceedings. The Commission must probe continually to be certain that utility companies are well managed and full-scale rate proceedings are an excellent forum for this. But there are other equally effective techniques, such as management audits and periodic reports, that the Commission can employ outside the rate case context.

## Public Perception

Recent public opinion surveys from a variety of sources demonstrate that most of the public in Arizona (as much as 70 percent by one estimate) is unfamiliar with the Commission and its responsibilities. Among those who are aware of the Commission, the only function they can identify is that of approving utility rates. And a substantial majority of those who are aware, believe that the Commission acts for the benefit of the utilities rather than the consumers.

These are not surprising attitudes in today's climate of consumer distrust of government and business, but they are almost inevitable results of the rate case syndrome which rules the Commission's actions. As stated earlier, increases in the cost of energy seem inevitable; for the most part, it is only a question of how soon they reach the consumer. The end result for the consumer is the same. He sees his energy bill continue to go up, and is unaware of the agonizing scrutiny by the Commission in rate cases.

The Commission cannot rely on the news media to communicate its watchdog role adequately to the public. Rate cases are comparable to court trials in terms of news value. The verdict is what matters and that is a one-day story.

In summary, rate proceedings as the Commission's chief activity in utility regulation do little to reassure the public. The record of the past few

years speaks for itself. In a succession of expensive and time-consuming rate cases the Commission has exercised its discretion in denying some requests and granting other. Utilities have faced one financial crisis after another while consumers have experienced dramatic cost increases. And through all of this, the Commission received high marks from no one.

## Positioning

In order to improve its standing with the public and to assert itself as an agency with significant public responsibilities other than utility rate making, the Commission should shift the emphasis of its activity in at least two key ways:

1) The Commission should establish itself clearly as the primary agency responsible for the state's economic future insofar as that future is dependent on assured supplies of the energy provided by the utilities under Commission jurisdiction. In this context, the Commission could emphasize, among other things, energy resources, joint utility planning, conservation, customer rights and protection and consumer involvement in energy problems.

This shift in emphasis is particularly critical in order to head off attempts to preempt this role from the Commission by creating a separate super agency that would regulate energy planning. If such preemption were to occur, the Commission would be cut off from the planning process where utility economics are really determined and left with only the rate decisions.

2) The Commission should also take steps to emphasize its other consumer responsibilities by embarking on a concerted marketing program centered around educating the public to the functions which the Utilities Division performs. This could include Commission publications, public speaking engagements and an ongoing series of topical reports and current consumer information.

Finally, in order to make headway on either of these approaches, the Commission should free itself to the greatest possible extent from continuous utility rate cases. The following are some possible actions the Commission might take:

## General

1) The Commission could scrutinize the long-range planning programs of the utilities which embrace new rate designs, load management devices and other approaches designed to bring about peak responsibility among utility customers while providing them with workable options for reshaping their consumption habits.

2) The Commission could call on utility presidents, consumer groups, and others for their assistance in persuading the Legislature to support the Commission's budget request for the resources necessary to perform the functions outlined in this paper.

3) The Commission could assist in a legislative drive to reduce or eliminate the hidden taxes that are charged to utility ratepayers, particularly the ad valorem tax.

4) The Commission could take several actions relating to the state's future energy resources and development with most of the information and data supplied by the utilities. Among such actions, the Commission could initiate an inventory of the state's energy resources as they pertain to regulated utilities; it could sponsor one or more statewide workshops to analyze the status of these future resources; it could require the utilities annually to present their forecasts for review.

5) The Commission could more actively and creatively obtain the input and participation of the public. For example, it could appoint *ad hoc* task forces. Such citizen groups could be given specific assignments of definite duration and asked to develop recommendations which would be weighed carefully by the Commission and the industry. Possible subjects for advisory groups include rate design (i.e., peak load pricing, preferential rates, time-of-day rates), service standards, utility taxation, budget billing, bill design, and credit policies. In many cases, the utilities could be required to participate and provide resource material.

## Rate Proceedings

There are a number of approaches the Commission could consider to reduce the burden created by rate proceedings.

1) The Commission could require an annual review of the company's ten-year forecast. This should include its forecast of peak load and energy sales, power plant construction scheduling to meet load growth, construction dollar requirements, fuel supply acquisition plans, operating expenses and rate requirements necessary to finance the construction program.

Management studies of the utilities should be conducted by professional consultants for the large companies and by Commission staff for the small companies and those studies should be updated periodically.

The Commission could require a report at a certain date (perhaps six months) on productivity measures which the company has undertaken to insure that costs are kept as low as possible.

To allay consumer criticism, the Commission could disallow advertising expenses on all subjects other than energy conservation and customer service, or ads of a purely information nature (such as dividend notices, employment opportunities, etc.). If the company wishes to advertise on other subjects, then its stockholders could pay for it.

## UTILITIES DIVISION

### Service

The Utilities Division is run by Director Bob Kircher and his Assistant, Barney Paulsen. Together they have vast and long time experience and service in State Government and especially with the Commission.

Utilities usually operate under a franchise, or an indeterminate permit which gives them the right to use streets and alleys and to serve the community. In exchange for these rights, the utility undertakes the duty of rendering good and adequate service. In carrying out this duty, the company plans for the future to insure adequate power. The Corporation Commission, as the regulatory body, oversees those plans.

### Reasonable Rates

Rate making is not an exact science. The rates charged by various utilities must be reasonable, but at the same time those rates must also be adequate or sufficiently high to allow a fair rate of return to investors in the company's stock and bond issues.

### Fair Return

As with any other investment vehicle, utilities must offer potential and existing investors a return that is competitive and alternative investment opportunities. By offering a rate of return that is competitive, utilities can attract new capital to enable it to both maintain its present operating status and more importantly expand and upgrade its facilities and services to meet ever increasing consumer demands. The granting of a fair rate of return also goes a long way in maintaining a good credit position on the part of the utility.

### Activity Review

Currently, the division has a responsibility for monitoring and regulating the service, rates and charges of 554 Arizona utilities including 466 water companies, 19 sewer companies, 6 irrigation companies, 17 electric companies, 12 gas companies, 12 telephone companies and 12 other communication companies. During fiscal year 1976-1977 the division spent 210 days in 335 hearings on rates, certificates, transfers, financing and show cause orders. From these hearings there were 467 orders issued by the Commission from the Utilities Division, including 32 new

certificates, 50 financing orders, 88 orders to show cause, 29 transfers of certificates, 133 rate matters, and 135 other miscellaneous orders. These orders were prepared for Commission consideration and action by the hearing officers, other professional assistance and the division staff.

### Complaints

Utilities Division handled during fiscal year 1976-1977, 2,328 telephone complaints against utilities under our regulation. The following compilation notes that the complaint working load by the division has remained constant throughout the last five fiscal years.

|         | Water | Tel.  | Gas | Elec. | Sewer | Other | Total  |
|---------|-------|-------|-----|-------|-------|-------|--------|
| 1972-73 | 958   | 922   | 157 | 327   | ---   | 36    | 2,400  |
| 1973-74 | 676   | 684   | 132 | 378   | ---   | 42    | 1,912  |
| 1974-75 | 933   | 1,039 | 175 | 760   | ---   | 31    | 2,938  |
| 1975-76 | 896   | 1,152 | 182 | 554   | 34    | 13    | 2,831  |
| 1976-77 | 919   | 660   | 180 | 544   | 22    | 3     | 2,328  |
|         | 4,382 | 4,457 | 826 | 2,563 | 56    | 125   | 12,400 |

These complaints were handled by investigators and in some instances, by engineers. We note with interest that complaints involving rates and charges are more prominent each month. With the fluctuation in Utility rates due to the inflationary influence and the general economic condition, we expect more complaints of this nature in the future.

## Division Management Study

Top priority of the Commission for the 1978-1979 budget is the Utilities Division reorganization. To reinforce the Commission's thinking that the Utilities Division is in need of some new forward looking programs, a Management Consultant Firm was brought in to examine the policies, practices, and procedures of the Utilities Division.

This examination gave consideration to the formulation of new programs specifically in the engineering area of the Utilities Division, as well as customer service, management service, auditing and financial analysis. These new programs were to contain long range planning as well as the present needs with emphasis on the division's staffing and other program requirements. A new set of definitive job descriptions of duties and responsibilities for each of these new positions will be forthcoming.

The program benefits include, enhancing the quality of the auditing and engineering efforts in rate case and other proceedings and reducing the level of outside and professional service by almost 35%.

Experts will be added to the staff in such areas as generation planning, load forecasting, financial analysis, management auditing, customer service, and statistical research. These proposed changes allow for improved planning, scheduling and control of staff work.

The Commission and the general public would be assured that a competent, effective and efficient staff is in place and operative and that the staff is equipped to analyze and offer expert opinions on such matters as fuel conservation, fluctuating interest rates, massive capital expenditure programs and customer needs.

## Arizona Public Service Company

In 1975 the Commission made permanent, the interim rate increase of 17.7% on electrical and 11.7% on gas and denied the additional 7% increase requested at that time by the company. APS appealed that decision to the Maricopa County Superior Court. The court's decision overruled the Commission's denial of the 7% increase and instituted an 11% increase of its' own. Feeling that the Superior Court had overstepped its' bounds, the Commission appealed that decision to the Arizona Supreme Court, at which time the Supreme Court found that the Superior Court was without jurisdiction to set rates, and that the company would be required to refund the increase collected pursuant to that Superior Court order. In September of 1976 the Commission ordered APS to refund approximately 17 million dollars to those customers.

On February 28, 1977 the Commission, on application by the company, began hearings into the phase I of a new rate proceeding. The company requested in its application a \$44,866,000 or 8.8% increase above the interim rates then in effect. The hearings lasted on the first phase through April 4, 1977 and a decision was due at the beginning of fiscal year 1977-1978. Following that decision, the Commission was expected to begin phase II of the proceeding which would determine a rate design for charges authorized from the phase I decision.

## Arizona Electric Power Cooperative

On March 31, 1977 the Commission held hearings on an application by AEPCO for interim rate relief. The company asked for an interim increase of \$2,900,000 which was granted by the Commission on May 4, 1977. As the increase was to be considered interim and temporary, a hearing to determine whether these interim rates should be made permanent or should be altered or amended is anticipated during the 1977-1978 fiscal year. AEPCO serves five member cooperatives in Arizona.

## Sun City Sewer Co.

Sun City Water and Sewer, which serves over 14,000 customers in the Sun City area of Maricopa County, received new rates on December 7, 1976. Sun City Water received an increase of 21.8% while Sun City Sewer received a decrease of 12%.

On an annual basis, the new rates were designed to provide a rate of return of 7.4% for the Sun City Water fair value rate base and 7% for the fair value rate base of the Sun City Sewer Company.

Following the order, Sun City appealed the Commission's decisions and the order has been under adjudication in Superior Court during the remainder of the 1976-1977 fiscal year.

## **Mountain Bell**

Several specific actions were taken by the company during fiscal year 1976-1977 which were designed to complete actions ordered by the Commission during the previous year. In addition, the Commission took certain actions to assist in improving telephone service and holding down basic telephone rates.

### **Dial Tone First:**

In April of 1975, the Commission ordered Mountain Bell to provide free operator access to all pay telephones in Arizona within two years.

The changeover for this service was completed in the Tucson area in September of 1976. All pay phones in the state including the Phoenix Metropolitan area were converted to allow this free operator access in May of 1977.

As a result of this action, in an emergency, the public will be able to reach an operator and obtain assistance from any pay telephone in Arizona without having to deposit any coins. Free calling will also be possible to the 911 emergency number in the communities in our state which have established this service.

### **Mountain Bell Tariff Revisions**

The Commission acted on 73 administrative revisions in Mountain Bell's tariffs involving boundary changes, the introduction of new equipment, and similar items during the fiscal year 1976-1977.

An order and tariff approval on December 21, 1976 allowed Mountain Bell to vary its prices for competitive equipment "on the basis of economic and market condition." Because of the existence of competition, the users of competitive equipment are guaranteed a choice of suppliers, while competition also determines the market price. By allowing the company to price its terminal equipment, at or above minimum levels, conditions should maximize the contribution of competitive service offerings to the overall revenue requirements, and thus, is in the best interest of the telephone customers, by holding down the basic telephone rates.

On June 7, 1977, the Commission approved the first Mountain Bell tariff implementing the use of DIMENSION electronic switchboards. The DIMENSION is the latest revolutionary electronic switching system expected to capture the business market. With the approval of DIMENSION tariffs, Arizona business customers are now able to enjoy this computer base, space age telephone system.

## **Mountain Bell Fully-Allocated Cost Study**

On February 2, 1976 the Arizona Corporation Commission ordered Mountain Bell to show cause why it "should not be ordered to prepare and submit a fully-allocated cost of service study of its intrastate operations in the State of Arizona". Hearings were held on May 10th, and 11th of 1976 at which time Mountain Bell presented testimony to discuss various types of cost study principles. Upon conclusion of these hearings, the matter was taken under advisement by the Commission.

On April 12, 1976 Economics and Technology, Inc. was retained by the Commission to provide technical assistance in connection with this matter. During the intervening months, Dr. Lee Selwyn has provided analysis of the various cost study methodologies now in use by Mountain Bell for the purpose of development of specific cost of service studies.

Dr. Selwyn's findings, conclusions and recommendations are now before the Commission and staff pending further action.

## **Tucson Gas and Electric Company**

Although Tucson Gas and Electric Company did not have any major rate proceeding during the 1976-1977 fiscal year, the Commission did undertake a review of the company's management study made during the previous rate proceeding.

## **Review of T.G. & E. Management Study**

In June, 1977 Touche Ross was contracted to independently review the progress on implementation of recommendations from a management audit of T.G. & E. performed by Theodore Barry & Associates. The follow-up addressed out the opportunities outlined in the original study that had been acted upon by T.G. & E. management and to what extent the dollar benefits which had been outlined in the original report had been realized.

Further study attempted to determine what the estimated cost benefit relationship of the study, including consultants' fees, other non-recurring costs and considerations of continuing costs had realized. Also reviewed was what access T.G. & E. management should take to further improve its organization and operations.

The evaluation process included the areas of organization, fuel management, work force management, materials management, transportation, taxes, planning, data processing, and finance. Included in the planning areas were forecasting, generators and transmission distribution, and space utilization.

In order to provide the Commission with some approximate indication of the cost benefit relationship in terms of quantifiable costs and savings, we have assumed that all measurable savings were either a direct or indirect result of the management audit. In addition, we have attempted to estimate the non-recurring and recurring costs due to the study using the company's estimates and our experience and judgement.

Under the above assumption, it is estimated that the company has reduced costs in excess of 5 million per year. In addition, it is estimated that the company avoided some 15 million of additional cost primarily in fuel. This cost avoidance performance may or may not recur in future years.

On the other hand, the additional costs associated with the study is estimated to be approximately \$400,000 in one-time costs and perhaps as much as \$500,000 in recurring additional expense.

## **Generic Studies**

As a part of an overall review of existing conditions in the utilities industry and with special attention to future considerations and with those considerations could be taken into account at the present time and thus applied to existing determinants, the Commission undertook various generic studies.

## **Peak Load Pricing**

The incentive for experimental rate designs, such as Peak Load and Time of Day, was brought about by ever increasing costs of energy and construction costs for new generation plants.

In essence, the purpose of both Peak Load and Time of Day Pricing is to accomplish the shifting of energy usage from peak generation, which is basically oil which is the highest generation cost; to baseload generation, which normally is coal or nuclear and is less costly.

At the present time, there are two studies in progress by Arizona Public Service Company and Tucson Gas & Electric Company to determine usage patterns of the various classes of consumers. When these studies are completed, an evaluation of the results will be made in order to determine the type of rate design which will accomplish the desired results and benefit both the consumer and the electric companies.

## **Audits of Fuel Adjustment Clauses**

Completed in this fiscal year were audits of the fuel adjustment clauses of Arizona Public Service Company, Tucson Gas & Electric Company and Arizona Electric Power Cooperative, Inc. Coopers and Lybrand Certified Public Accountants, were retained to audit the fuel escalation clauses of Arizona Public Service Company and Arizona Electric Power Cooperative, Inc. Arthur Young & Company made the audit of Tucson Gas & Electric Company.

All three audits covered a period of several years and entailed a complete review of all escalations and de-escalation of electric and gas prices due to increases in cost of fuel or cost of natural gas purchased for resale. The audits revealed no significant errors in the application of the authorized clauses.

## **Generation Study**

The Utilities Division instituted a statewide generation study of the total electric generation capacity within the State. This included the portion of hydro generation allocated to Arizona from the Bureau of Reclamation.

The purpose of this study is to determine if the generation is being utilized efficiently and to explore the possibility of a power grid that would tie all generation together in order to utilize the total generation to the economic benefit of the consumer.

The Chief Engineer (Robert Bartol) is a member of the Western Conference of Public Service Commissions Electric Power Supply Staff Subcommittee, which is composed of the following western states: Washington, Oregon, Idaho, California, Nevada, Montana, Wyoming, Utah, Colorado, Arizona and New Mexico. At the present time, the Subcommittee is exploring the formation of a western states power grid. In view of the difference in climatic conditions between the northern and southern areas, it is considered this transmission grid could provide considerable relief to the consumers by diversity of exchange.