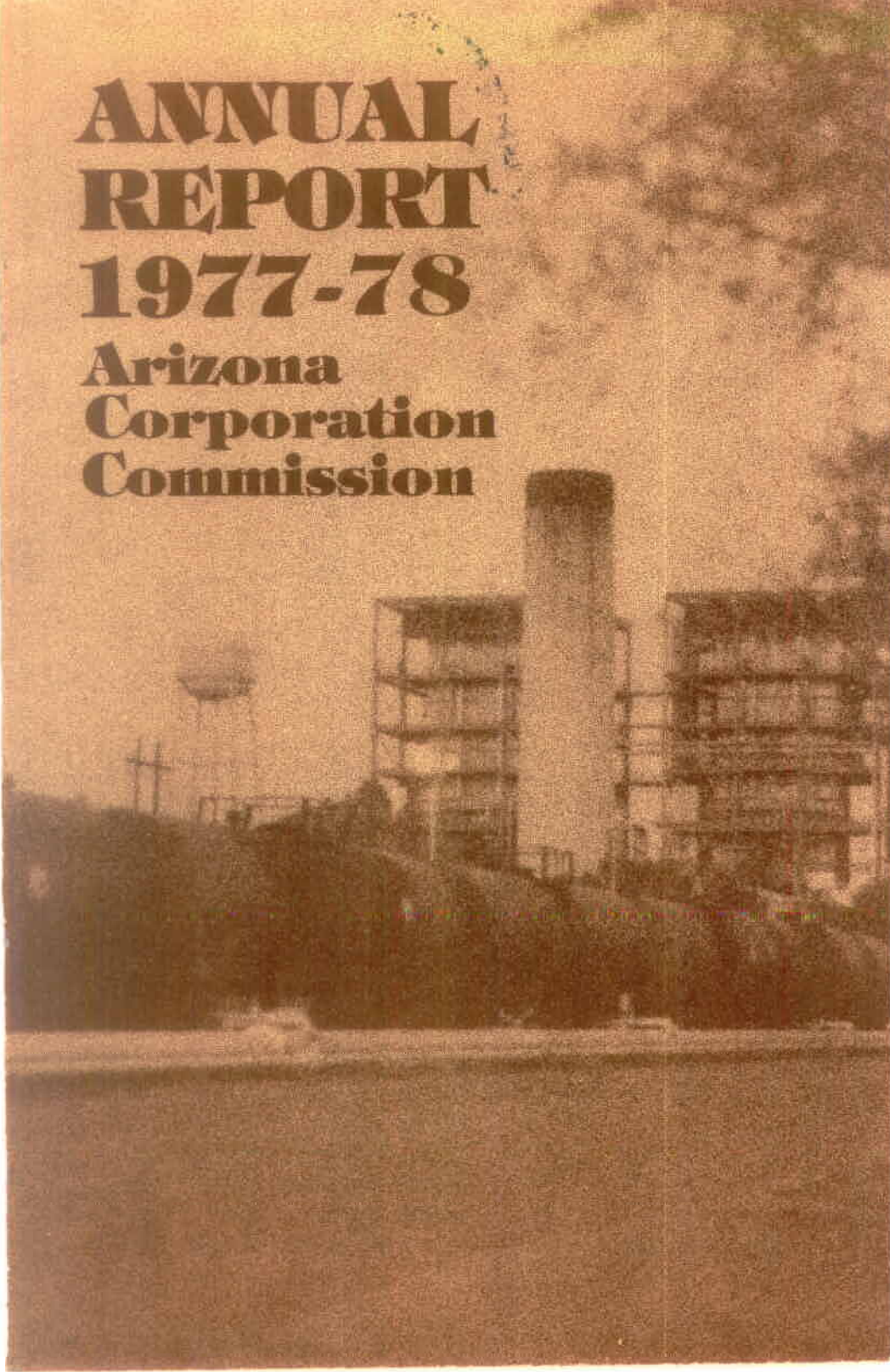


ANNUAL REPORT 1977-78

**Arizona
Corporation
Commission**



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Cover Photo: Ellen Wyndelts

ARIZONA CORPORATION COMMISSION

66th Annual Report

1977-78 Fiscal Year

JULY 1, 1977

TO

JUNE 30, 1978

Ernest Garfield, *Chairman*

Bud Tims, *Commissioner*

Jim Weeks, *Commissioner*

George C. Anderson, Jr., *Executive Secretary*

Robert G. Kircher

Utilities Director

Matthew J. Zale

Securities Director

Reuben M. Payne

Incorporating Director

Frank Bowman

Motor Transportation Director

Evo J. DeConcini

Southern Arizona Representative

Andrew W. Bettwy, Jr.

Chief Hearing Officer

State Office

2222 West Encanto Boulevard

Phoenix, Arizona 85009

(602) 271-3931

Southern Arizona Office

415 West Congress Street

Tucson, Arizona 85701

(602) 882-5555

ERNEST GARFIELD
CHAIRMAN

BUCK TIMS
COMMISSIONER

JIM WEEKS
COMMISSIONER



G. C. ANDERSON, JR.
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

2222 WEST ENCANTO BLVD
PHOENIX, ARIZONA 85009

The Honorable Bruce Babbitt
Governor of Arizona
State Capitol
Phoenix, Arizona 85007

Dear Governor Babbitt:

Transmitted herewith is the 66th Annual Report of the Arizona Corporation Commission for fiscal year ending June, 1978.

During the past year, we have directed our attention inward, seeking to consolidate programs previously begun and keep abreast of the tremendous growth in agency services necessitated by a growing and prosperous state. We are working on plans to completely reorganize the Utilities Division in light of the pressing need to be more constantly knowledgeable of the activities of our power companies in this age of energy inflation.

We feel we have made significant strides in management and in cutting down on the bane of regulators -- regulatory lag. We have pushed de-regulation wherever we could. We have made progress to make this Commission a more effective component in the fight against white collar crime. We hope to continue this development in the coming year.

Sincerely,

A handwritten signature in cursive script that reads "Ernest Garfield".

Ernest Garfield
Chairman

Enclosure

THE COMMISSIONERS



Ernest Garfield
Chairman

Appointed:	January 1973
Elected:	January 1974
Term Expires:	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:	January 1977
Term Expires:	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 is 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.



Bud Tims

Elected:	January 1975
Term Expires:	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.

**ROSTER OF CORPORATION COMMISSIONERS
SINCE STATEHOOD**

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

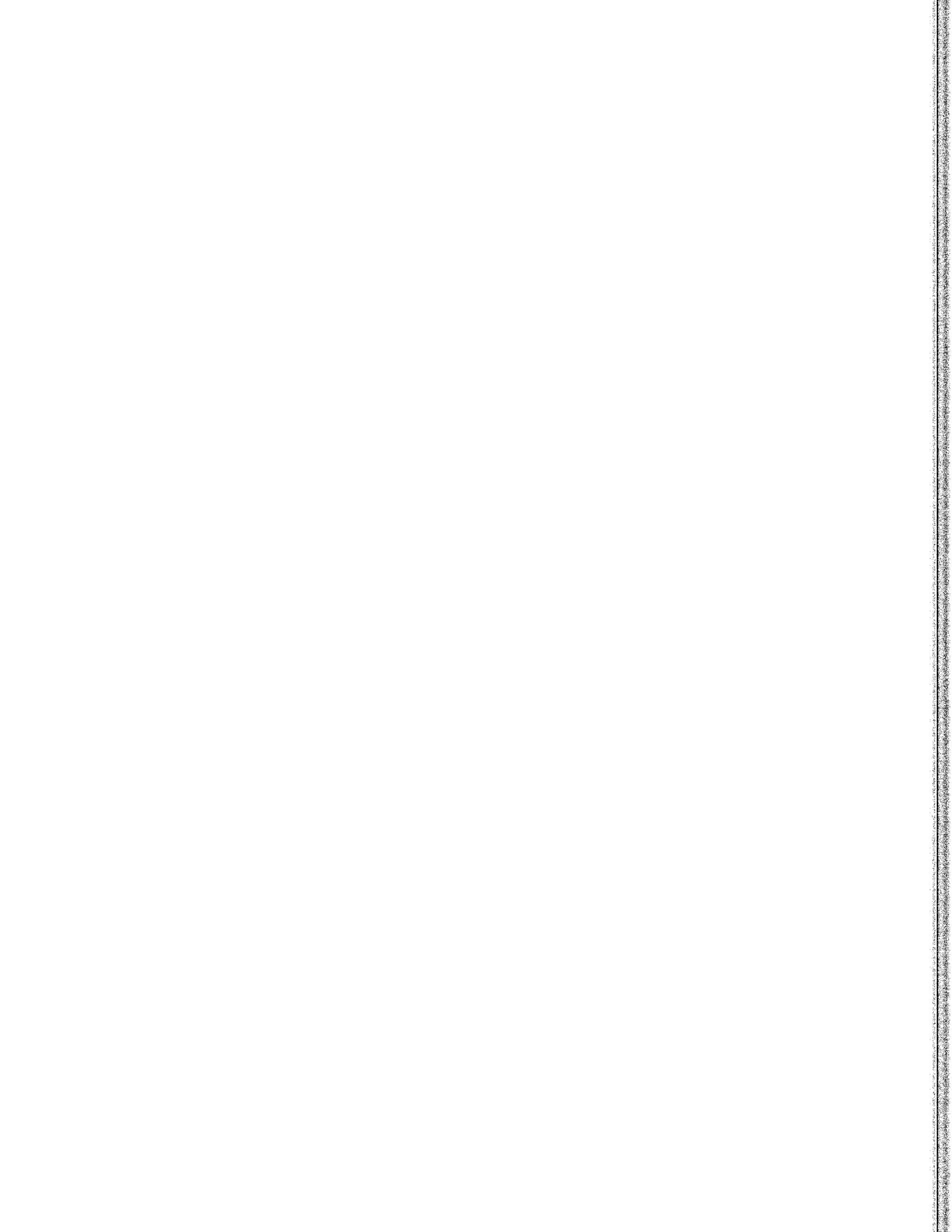
PREFACE

If it rolls down the highway or the runway, is traded on the securities market, provides power to heat, cool or light your house or office, or is a business "person" by virtue of having incorporated, chances are the Arizona Corporation Commission touches it at some point, at some time, and in some manner.

This is the extent and diversity of the Arizona Corporation Commission, a constitutional body established at statehood by Article XV of Arizona's Constitution. By constitution or by state law, the Arizona Corporation Commission has jurisdiction over all non-municipal public service companies in the state, making the often tough decisions about what rates power and private water companies may charge, how much cargo costs to haul, what an intrastate airline can charge for a seat on one of its flights.

The Commission is governed by three Commissioners, elected to six-year terms of office, with one Commissioner up for election every two years. If a vacancy occurs, the Governor appoints a Commissioner who stands for election at the next regularly scheduled election. The Commission must maintain offices in the capitol city, and presently maintains offices at 2222 West Encanto Boulevard. A regional office also is located in Tucson at 415 West Congress Street.

To fulfill its obligations, the Commission operates five divisions: *Motor Transportation*, with jurisdiction over common carriers and carrier safety, enforcement and emergency services; *Utilities*, which monitors power and water companies and sets rates; *Incorporating*, which accepts new corporate filings, maintains current records of corporations and makes these available to the public; *Securities*, the division responsible for enforcing the Securities Act of Arizona; and *Administration*, which provides coordination services to all other divisions, and provides hearing officers and other professional assistance.



ADMINISTRATIVE DIVISION

The Chief Executive Officer of the Arizona Corporation Commission is the Executive Secretary. His office is responsible to the three Commissioners for the day-to-day operations of all divisions and for providing administrative support necessary for the Commissioners and the divisions. The secretary serves at the pleasure of the Commissioners and is the chief law enforcement officer, through whom all Commission enforcement personnel derive their police authority.

The Executive Secretary coordinates the divisions' efforts, provides management, planning and accounting service, prepares and presents the budget, coordinates public information, intergovernmental liaison and legislative relations of the Commissioners and provides to the divisions and the Commissioners whatever other administrative support they require.

Year of Activity

FY 1977-78 was a year of increased activity for the Arizona Corporation Commission. Internal and external forces came together during the year to bring about a series of examinations of the Commission and its operations, including public discussion of whether the Commission could be doing a more effective job if changes were instituted. Because of probes by law enforcement, legislative committees, the Auditor General and others, the Commission uncovered and corrected many operational problems. Some of these probes were requested by the Commissioners, some were instigated by others. As of this writing, some are continuing. Ultimately, what is learned by these examinations will make the Commission function better, to better serve the people.

Legislatively, several bills were introduced— some of them Constitutional questions— intended to force an examination of the diversity of

the Commission's regulatory functions and pose the option of splitting off some of the Commission's functions to different agencies. Only two of these proposals were heard, one dying before the sponsoring committee and the other failing after its first committee.

A report from the Auditor General, requested by the Commission Controller, was forthcoming during the year. It confirmed the existence of some internal problems the Commissioners and Executive Secretary were aware of, and pointed to other problem areas. As of year-end, most problems were resolved.

The Public Be Heard

The Commission put great emphasis in 1977-78 on the problem of communicating with members of the general public, both during and between rate cases. The Commissioners traveled to several communities during the year to visit with leaders and hold public sessions.

Hearing

The conduct of a hearing is a nearly indispensable part of any rate making proceeding. Therefore, the Hearing Division— now part of Administration— has become clearly an essential part of the Commission.

Under the supervision of a hearing officer, hearings are designed to bring out the information and physical evidence on which the Commissioners base their ultimate decisions. During FY 77-78, the gavel fell at least 1,000 times to commence this process.

Hearing officers take testimony, make rulings from the bench and determine points of law as they apply to any given proceeding. They also draft suggested orders for the Commissioners' approval.

A cooperative agreement with the U.S. Interstate Commerce Commission allows that agency to use Commission hearing facilities and to borrow Commission hearing officers from time to time for local cases.

Southern Arizona Office

Functions of the Arizona Corporation Commission affecting public service corporations and the public of Southern Arizona in general are performed by a well-trained staff in Tucson. The demand for these services is steadily increasing as the public becomes more and more aware of the

Commission's expanded capabilities in Tucson as well as for the public desire to save time and money.

In its effort to "bring government to the people," eliminate red tape and bureaucracy, the Commission has also saved taxpayers thousands of dollars by utilizing its Southern Arizona Representative as a hearing officer. During the past year, said hearing officer heard approximately 100 cases throughout Southern Arizona. He also represents the Commission and the State of Arizona as a member of the Interstate Commerce Commission Joint Board and hears all the motor carrier cases involving the State of Arizona and its adjoining states.

The Commission strongly believes that by resolving problems at the local level both the public and the Commission are better served.

The Tucson Office handles an average of approximately 4,500 calls and "walk-ins" per month.

Approximately 400 formal written utility "complaints" of all kinds were filed and fully investigated by Tucson staff during the past year.

The advantage of decentralized and localized service to one-third of the State's population is made even more evident by the tremendous increase in service provided by the recently established segment of the Incorporating Division in the Tucson office. Of the approximately 4,500 calls and "walk-ins" per month, about half pertain to incorporating matters. The division takes great pride in the fact that it provides computerized information, instant service and "same-day" incorporating. The Commission has repeatedly been complimented for having established and providing this much needed public service to the residents of Southern Arizona.

CASHIER'S REPORT

July 1, 1977 through June 30, 1978

Division	Revenue
Administrative (Misc. Refunds)	\$ 5,172
Incorporating	1,614,163
Utilities	2,199,294
Motor Transportation	660,231
Securities (General)	232,994
Securities (Clearing)	158,837
TOTAL	<u>\$4,870,691</u>

CONSOLIDATED BUDGET ANALYSIS
66th FISCAL YEAR
1977-1978

Division	Actual Expense 1977-78	Appropriation 1977-78
Administration	\$ 641,800	\$ 644,100
Incorporating	453,700	457,300
Utilities/Hearing	1,220,900	1,222,900
Motor Transportation	1,450,300	1,458,200
Securities	<u>560,500</u>	<u>560,500</u>
TOTAL	<u>\$4,327,200</u>	<u>\$4,343,000</u>

	Appropriated 1978-1979	Requested 1978-1979
Administrative/Hearing	\$ 941,400	\$1,072,300
Incorporating	492,500	484,100
Utilities	1,020,600	1,403,300
Motor Transportation	1,781,600	1,980,100
Securities	<u>699,400</u>	<u>860,100</u>
TOTAL	<u>\$4,360,500</u>	<u>\$5,799,900</u>

UTILITIES DIVISION

The responsibility of the Utilities Division is to regulate public utilities in a manner that is just, reasonable and beneficial to ensure the continuation of quality utility service to the people of Arizona while allowing the public utility corporations to earn a fair rate of return on their investments pursuant to the laws and constitution of the State of Arizona.

This regulative power is divided into two areas: Enabling powers, under which the utility companies must secure Commission approval before specified acts may be committed; Directing powers, by which the Commission is authorized to exercise continuous supervision over the operations of utilities and to intervene when necessary in the public interest.

Management Study

A study on restructuring the Utilities Division was made in 1976. An additional management study in procedures, policies and personnel was completed in February, 1978 and included work flow, flow charts, review of reports, forms, files and personnel.

Recommendations were incorporated in the 1977-78 and 1978-79 budgets, but have only been partially funded. Also, a computer-based utilities information system has remained dormant ever since 1975 due to lack of funding.

Power Requirements and Supply

A study of generation requirements and power supply of electric

utilities in Arizona was conducted by R.W. Beck & Associates during this fiscal year.

The function of power pooling is the coordination in the planning for additional generation and transmission facilities and in the operation of all existing generation and transmission facilities. Some of the specific functions and benefits which can be achieved include reduced capacity, reduced spinning reserves and surplus capacity, power production economies, coordinated maintenance, optimized transmission additions and joint bargaining actions.

The four utilities studied, Arizona Public Service, Arizona Electric Power Co-Op, Salt River Project and Tucson Gas & Electric, represent about 90 percent of the state's electric generation.

The purpose of this study was two-fold; to make an analysis of the 1976 operations of the four major operating companies and assess long-term needs.

A base plan for the four utilities was first developed into a statewide load model, taking into consideration load diversity, timing of individual new generating and transmission facilities. Assuming a completely coordinated power pool with centralized dispatching of generating units had been in operation in 1976, the actual operating cost could have been reduced by \$20 million.

The long-term (1977-1995) power supply expansion plans of the four companies were developed by each individual company to meet the needs of its service area. From this the consultants developed a series of alternative plans for expansion of existing generating facilities on the basis of coordinated pool planning of all bulk power supply facilities on a "one system" approach.

Long-range benefits of the Commission-ordered study include a savings of \$900 million in reduced bulk power costs, development of a more orderly schedule in adding generating units, minimization of the number of new power plant sites, and reduced peaking capacity requirements.

This model was then enlarged to include the Public Service Company of New Mexico (PNM) and El Paso Electric (EPE). This larger area represents an additional potential savings of \$154 million to Arizona over the 20-year planning period. Taken into account were existing resources, additions, the deletion of purchases and sales between area participants, annual peak demands, and reserve margins.

An additional \$250 million in the reduction of bulk power supply costs could be realized by utilizing seasonal diversity exchange with the Pacific Northwest-Southwest DC Intertie if a second line is constructed. This exchange also would reduce the peaking capacity needed in Arizona and save considerable fuel.

Statistics

Orders Issued:

During the 1977-78 fiscal year, the division spent 162 hearing days and 324 man days in 310 hearings on rates, certificates, fuel escalations, financing and show cause orders.

Numbers of orders issued	386
Numbers of financing orders	51
Orders to Show Cause	57
Number of transfers	20
Rate matters	85
Fuel escalations	10
Miscellaneous orders	163

Open Meetings:

During the year, the division submitted to the Commission the following items to be heard in open meeting:

Rate matters	109
Transfers	16
Fuel escalations	97
Certificates	33
Orders to Show Cause	128
Gas variances	91
Contracts	26
Financing matters	78
Others	<u>444</u>
Total	1,022

Revenue Collected:

Another function of the division is the annual assessment from the utilities. The assessment of net revenue is established at 1/10 of one

percent of the 1st \$250,000 and 2/10 of one percent of all additional net revenue after \$250,000. There is no assessment if net revenue is under \$1,000.

Gas	\$ 54,431.48
Telephone	633,710.74
Electric	1,481,462.63
Sewer	3,699.89
Water	<u>22,988.48</u>
Total	\$2,196,293.22

Complaints:

The complaint workload has increased by 22 percent over the 1976-77 fiscal year and with the inflationary influence and the general economic conditions, a similar increase is expected in 1977-78.

Water	1,041
Telephone	810
Gas	353
Electric	604
Sewer	<u>27</u>
Total	2,835

Monitors and Regulates:

The division has the responsibility to monitor and regulate the following number of utility companies:

Electric	17
Gas	13
Radio Communications	7
Telephone	12
Telegraph	1
Water	413
Sewer	19
Irrigation	<u>8</u>
Total	490

Adjustment Clause

The Commission, on its own motion, investigated escalation clauses and/or purchased power or fuel adjustment of the electric utilities operating intrastate in Arizona.

Adjustment clauses, also commonly referred to as an escalator, adjustor, or pass through clauses, are a tool currently in use in one form or another in most regulatory jurisdictions in the United States. The term describes a procedure whereby independent of full and complete rate proceedings, a utility is allowed to adjust its rates and charges upward and downward as the cost of fuel or purchased power fluctuates.

An important distinction in analyzing the adjustment clauses is the distinction between the utilities who are distributive in function only and do not enjoy generation capacity and those utilities which generate all or a substantial portion of the power they sell.

The Commission's decision regarding the fuel or purchased power adjustment clauses should be effective in the near future.

Mountain States Telephone & Telegraph

On December 12, 1975, the Commission issued Decision No. 46599-A approving the application for an increase in selected rates, affecting charges for all installation, moving and changing of telephones within the State of Arizona.

After entry of the decision, Mountain States filed tariffs and proceeded to charge and collect the increased rates authorized.

This decision was challenged in court on September 27, 1976 and the Maricopa County Superior Court upheld the decision.

An appeal was taken from the judgment of the Superior Court, and on February 3, 1978, the Arizona Court of Appeals reversed the Superior Court Judgment, directing the lower court to set aside Decision No. 46599-A.

On June 30, 1978, a show cause order was issued why the Commission should not order Mountain States to refund any and all revenues collected pursuant to tariffs filed under authority of Commission Decision No. 46599-A. The hearing was postponed when further action was instituted in court. At this writing the final outcome of these proceedings is unknown.

Small Public Service Corporations

The State of Arizona enacted new legislation concerning public service corporations with gross revenues under \$25,000 per year. This legislation allows procedural changes for such companies seeking rate increases:

“The showing before the Commission by a public service corporation with gross operating revenues of less than twenty-five thousand dollars, including the requested rate relief, may be made with or without a hearing as determined by order of the Commission.”

This new amendment will provide monetary relief for the company by not having to hire attorneys and other consultants necessary for a hearing, and will also assist the Commission in terms of fewer hearings, staff preparations, court reporting services and administrative support requirements.

Arizona Public Service

Arizona Public Service Company applied for a hearing to determine the fair value of the utility property of the company for rate making purposes, to fix a just and reasonable rate of return, to approve rate schedules and to determine if the interim rate schedule approved September 30, 1976 should be made permanent.

The Commission directed the hearings be heard in two phases. Phase I dealt with the establishment of a fair value rate base, determination of a fair rate of return and other matters appropriate to establishing authorized rate levels for the company. Phase II was to consider costs of service and rate design matters necessary to achieve the revenue levels authorized as a result of Phase I hearings.

Phase I

On February 28, 1977, the Commission began hearings on Phase I.

The company requested in its application, a \$44,866,000 or 8.8 percent increase above the interim rates then in effect. The hearings on Phase I lasted through April 4, 1977 and the decision was entered on August 1, 1977.

This order established a three-step increase with the first step effective August 1, 1977. It granted an increase in excess of the interim of \$23,530,000 which represented a 5.94 percent increase over the interim.

This increase was to be applied evenly between electric and gas. Therefore, making the fair value return for electric 8.32 percent and for gas 7.94 percent.

Phase II

Rates:

Phase II of the APS rate case was to consider rate structure, or more simply, what category of user of power will pay how much per kilowatt hour for his power.

One thing that kept coming to the front from staff and outside studies was the fact that some classes of customer return less revenue per kilowatt hour used than other classes of customer. Many possibilities were considered in an attempt to impose economic sanctions on uneconomical or "peak" use of power. These options are still being debated and may be tried at a later time.

Ultimately, the commissioners signed June 7, 1978 a new rate structure for APS, more in keeping with the concept that those who demand the power should pay for it. The structure established a new base rate designed to pay for the cost of maintaining service to customers even when no power is used. The order also called for summertime reduced rates for power consumption below 400 kilowatt hours per month and partial elimination of declining blocks. Most persons in the middle usage bracket will feel little effect. The Commission did delay implementation of the rates until October 1, 1978, as a courtesy to customers who would feel an increase at the time of the year when they demand the most electrical energy; mid-summer.

In summary, the Phase II order eliminated the idea that power should get cheaper with more usage (declining blocks); instituted a mandatory charge for service even without receiving any electricity— more in keeping with the cost of that service; and established a lower rate for those who use minimal power in the summertime.

Tucson Gas & Electric

On May 10, 1978, Tucson Gas & Electric Company (TG&E) filed an application with the Commission requesting an order authorizing the sale

of its interest in Unit Four of the San Juan Generating Plant and directing that the energy sold under layoff sale agreements for Unit Three of that plant be excluded from the calculation of TG&E's average cost of fuel and purchased power. This sale was predicated on the lack of transmission lines between the San Juan Plant and Tucson and excess generating capacity.

The Commission authorized the sale of Unit Four, but without approving or disapproving the terms of the sale or reasons therefore and denying without prejudice the application to exclude from the calculation of TG&E's average cost of fuel and purchased power the energy sold under the layoff agreements for Unit Three of the San Juan Plant.

INCORPORATING DIVISION

The Incorporating Division during the 1977-78 fiscal year is extremely proud of its 26 full-time employees, their accomplishments, the dollar results achieved and the quality service rendered to the public. With \$1,614,163 in total receipts for fiscal 1977-78 and a budget of \$419,500, the State netted \$1,194,663 from operations of this division.

Responsibilities

The Incorporating Division is charged with carrying out and administering the Arizona General Corporation Law (A.R.S. Sections 10-002 through 10-966) and prescribes reasonable rules and regulations relating thereto. Any organization operating as a corporation in the State of Arizona must receive its authorization to act from the division. In administering the Arizona General Corporation Law, the division:

- Approves the statutory qualifications of all corporations and certifies all profit and non-profit corporations, domestic and foreign, seeking to do business in Arizona;

- Determines that all legal requirements set forth in the Arizona statutes have been met;

- Receives, approves, records, films and maintains files of all corporate documents required by statute;

- Ensures all corporate information will be ready, reproduceable, available and viewable to the general public and law enforcement officials.

Secondary requirements of the statute ensure the general public receive from the Incorporating Division: adequate, economical, efficient and quality service.

All corporations registered with the Incorporating Division are 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 statute. The form for filing is mailed to each corporation at the most recent address listed in the division records. The authority of a corporation to do business in Arizona can be revoked if an annual report is not filed when due. The Incorporating Division has no investigatory power and very few regulatory powers. All filings are public information and available for inspection. Copies of documents may be secured and certified for a minimal fee.

Growth and Activity Report

The Arizona economy continues to experience rapid growth in population and employment. As this increasingly sophisticated economy is reflected in the service-producing sectors, the correlation between population, growth and service is markedly reflected in the Incorporating Division's annual revenue.

From 1968 through 1978, there has been a 200 percent increase in revenue intake. If by the year 2000 the Arizona population doubles, and there is a direct correlation between population growth and the amount of revenue produced by the division, in the coming decade the Incorporating Division should produce revenue of from four to five million dollars a year. With that type of growth, we are taking care to see the **foundation** is developed to render efficient, quality service to Arizonans for the next score of years.

The division consists of five basic sections. Each is necessary to fulfill the mandate of the Arizona Statutes relative to the division's duties and responsibilities.

Incorporating Section

Processes and approves all original filings. The general work flow for the incorporating section for Fiscal 1977-78 is reflected in the following service measurements:

Domestic Articles Filed	10,001
Foreign Articles Filed	1,808
Domestic Amendments Filed	2,500
Foreign Amendments Filed	600
Domestic Mergers Filed	428

Foreign Mergers Filed	228
Intents to Dissolve (Domestic)	412
Application of Withdrawal (Foreign)	232
Completion of Dissolutions	302
Completion Withdrawals	216
Name Reservations Processed	2,730
Inquiries (Letter)	7,634
Inquiries (Telephone)	25,000
Service to Walk-in Customers	6,556
Monies Received	\$511,920

Annual Reports Section

Responsible for processing and approving all reports filed subsequent to incorporation, the general work flow for the Annual Reports Section for the Fiscal Year 1977-78 is reflected in the following service measurements:

Annual Reports Filed (Profit & Non-Profit)	41,228
Corporate Address Changes Filed	6,771
Fiscal Date Changes Filed	1,889
Preprinted Annual Reports Sent Out	42,316
Delinquent Notices Sent Out	10,936
Annual Reports Returned For Correction	6,454
Statutory Agent Changes	8,778
Inquiries (Letter)	6,240
Inquiries (Telephone)	24,960
Service to Walk-in Customers	2,080
Monies Received	\$911,431

Records Management

“Storage” of all records and the “furnishing of information” or copies of information to the public from 50,000 active and 100,000 inactive corporations, the “Records Management” Section work flow for fiscal year 1977-78 is reflected in the following service measurements:

Preparation of Hard Copies	52,000
Preparation of Diazo Copies	26,700
Acceptance of Service of Process	297
Acceptance of Subpoenas	17
Inquiries by Phone	133,280
Inquiries by Letter	5,340
Counter Customers	14,000
Documents Microfilmed & Inserted	375,000
Monthly Billings: Diazo Copies	7,915
Monthly Billings: Hard Copies	180,000
Monies Received	\$59,790

Revocation and Delinquency

Responsible for processing "all work related to revocation, delinquency and certification", the general work flow for the Revocation and Delinquency Section for fiscal year 1977-78 is reflected in the following service measurements:

Certificates of Compliance Issued	1,440
Certification to Articles, Amendments, & Mergers	3,344
Revocations	6,005
Reinstatements	357
Revocations Set Aside	593
Inquiries Answered (Telephone)	3,900
Inquiries Answered (Letter)	520
Annual Reports Sent	670
Delinquencies Researched for Addresses	418
Delinquency Letters Sent to Statutory Agents	332
Delinquency Cards Sent	276
Affidavits of Publication Received	13,197
Service to Walk-in Customers	1,820
Money Received (Reinstatement Fee Only)	\$35,700

Computer Data

Responsible for providing "all technical information and data" necessary for conversion of record keeping system to "input and retrieval on-line computer bank", the Computer Data Section is responsible for "training" of 35 employees in operation of computer terminals. The

general work flow for the Computer Data Section for fiscal year 1977-78 is reflected in the following service measurements:

Computer Entries	800,000
Error Corrections	8,000
Documents Prepared for Microfilming	114,000
Train Employees in Operation of Computer Terminals	35

In May, the division received four computer terminals through Title II funds, for input of incorporating data. The acquisition of those terminals and the commencement of conversion of all the division's records to computers required all personnel in the Phoenix and Tucson office to be trained in terminal input.

Tucson Section

Since October of 1976, residents of Southern Arizona, nearly one million persons in six counties, can file all original filings of corporate documents and receive corporate information from the Tucson Incorporating Division, on the same basis as provided in the Phoenix office. Tucson population growth and its maximum potential will require processing of 25-30 thousand filings per year, and responding to 10,000 inquiries yearly for computer data. The advantages of decentralized and localized service to 1/3 of the population of the State of Arizona is self-evident. The general work flow for the Tucson Incorporating Division for fiscal year 1977-78 is reflected in the following service measurements:

Articles of Incorporation Filed, Domestic and Foreign	1,110
Amendments Filed	168
Restated Requests	8
Annual Reports Filed	1,130
Name Reservations	164
Telephone Inquiries	23,000
Counter Customers Walk-in Service	5,300
Certifications	472
Good Standing	236
Service of Summons	10
Monies Received	\$95,321.70

Plans

Fiscal year 1978-79 should see the completion of the division's conversion to on-line data systems, and the perfection of one-day incorporating. Microfische will be retained as a back-up data system and a means of providing hard copy of articles and other filings. The division hopes to implement requirements of the incorporating/bankruptcy law passed by the last legislature and complete re-writing of the non-profit corporation code for consideration of the first session of the 34th Arizona Legislature.

The use of more sophisticated data management hardware should allow the division to continue to provide quality service to the citizens of the State and still maintain its four-to-one ratio of income to expenditure.

SECURITIES DIVISION

Staff accountants with fraud auditing background and staff attorneys with consumer fraud and securities law background have been added to the staff. The division now has the necessary legal and accounting expertise to review applications, investigate offerings and recommend prosecution of apparent violations.

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.

Education

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. Although the division has built many investigations and cases, it believes it is better to prevent the loss of an investor's savings in a stock scheme than to spend months unravelling it after the fact. Accordingly, the division has begun a public education program to alert investors on how to protect their hard-earned savings from stock swindlers.

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. Five Securities Division staff members formed a "Speakers' Bureau" and have spoken to more than 30 groups of Arizona residents with the "Ten Steps" message.

In addition, the division has utilized mass media and its own quarterly newsletter to inform the general public that each person is his own best

defense against fraud, and to get the word to would-be con artists that the division is taking a hard line on investigation and enforcement.

The reorganization of the division is continuing; it is aimed to make it one of the most competent state securities divisions in the country in its work of protecting investors. In the first full year of operations with its new staff, thirteen major actions were undertaken which saved Arizona investors an estimated \$96 million, or \$45 for every dollar of the division's budget.

The Securities Division also departs from its strict securities sales mandate when necessary to warn investors of other types of potential financial crimes. Such was the case in FY 1977-78 when the division warned Arizonans about the activities of Lloyd Carr Commodities, a Boston-based telephone sales brokerage house which the division helped the U.S. Government close down. It was discovered the president of the company was a fugitive from another state, having escaped from prison there.

The division is inaugurating an internship program with law, accounting, and criminal justice students from Arizona State University and the University of Arizona. This program has the dual benefit of educating students in the securities law field and training possible candidates for permanent positions within the division.

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, and attempts 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:

- Issuance of a Cease and Desist Order.
 - Referral to the Attorney General's office for civil injunctive action in the courts, including appointment of a receiver.
 - Referral to the Attorney General's office for criminal action.
 - Revocation, suspension, or denial of a broker-dealer or salesperson's registration.
- Public hearings before hearing officers, the full Commission, or the courts are necessary in connection with the above.

Future Plans

It is the goal of the Securities Division to review carefully each new securities filing 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 consistently striving to improve such professional standards.

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 expanded 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 General's 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 being investigated has significantly increased.

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

Several court actions in the Maricopa and Pima County Superior Courts 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 experts were added 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 1977-78 fiscal year was as follows:

Securities issues registered:	1,034
Billion dollar value:	9.7
Exemptions granted:	59
Broker-dealers registered:	383
Securities salespeople licensed:	3,533
Registration fees collected:	\$275,847.27

MOTOR TRANSPORTATION DIVISION

The consolidated Motor Transportation Division now has been in operation for one full year, handling the Commission's jurisdiction concerning motor carrier, railroad, emergency vehicles, air carrier operations and authority issues. The division is divided into five functional sections: Tariff and Rate; Enforcement; Railroad and Hazardous Materials; Emergency Services; Authorities.

The division's duties are mandated by Sections 2, 10, and 15 of the Arizona Constitution, by a multiplicity of state statutes, principally those found in Title 40, and by Corporation Commission rules and regulations promulgated thereunder.

Railroad Safety

The Railroad Safety Section is responsible for enforcing track, freight car, rail-highway, railroad construction safety, and railroad accident reporting; for managing and administering the state rail-highway improvement fund; for providing technical support and railroad service, safety and economic data to the Department of Transportation's Rail Planning Section. It also handles hazardous materials transportation training and emergency advisory assistance, and for regulating private fire protection corporations.

The goal of the Railroad Safety Section is safety in all areas of railroad operations and reduced railroad-related accidents; reduced deaths and injuries to persons and damage to property caused by accidents involving any carrier of hazardous materials; and to ensure adequate private fire protection services to Arizona's vast rural, unincorporated areas.

The Railroad Safety Section plans its hazardous materials transportation program to meet an ever increasing demand from interested

shippers, carriers and emergency response personnel. It selects and trains, from existing staff, a "Go Team" to provide 24-hour, 7-day-a-week emergency advisory assistance, at the scene, for transportation accidents involving hazardous materials. It establishes procedures to certify the training of fire fighters employed by private fire protection corporations and participates in the Railroad Safety and Hazardous Materials Control Act of 1970.

RAIL-HIGHWAY GRADE		
CROSSINGS IMPROVEMENTS	76-77	77-78
Appropriation	N/A	\$200,000
Encumbered		199,218
Obligated		37,916
Expended		0
Unexpended		200,000
Orders Issued		37
Projects Completed		9
Projects Underway		1
Projects Pending		27
RAILROAD INSPECTIONS	76-77	77-78
Track (Miles)	1,283	1,336
Freight Cars	3,496	3,628
Industry Spurs	111	221
Rail-Highway	183	208
Other	27	13
RAILROAD INVESTIGATIONS	76-77	77-78
Accidents	93	98
Complaints	32	21
Variance	9	3
Special	13	6
RAILROAD ACCIDENTS		
REPORTED	76-77	77-78
Derailments	30	31
Collisions	6	1
Rail-Highway	65	66
Injuries	243	266
Fatalities	13	20

PRIVATE FIRE INSPECTIONS	76-77	77-78
Stations	11	3
Equipment	30	16
HAZARDOUS MATERIALS VIOLATIONS REPORTED	76-77	77-78
Rail	4	6
Highway	330	1,290
Air	0	0
Shipper	103	198
Other	4	3
HAZARDOUS MATERIALS TRAINING SEMINARS	76-77	77-78
Rail Carrier	0	0
Highway Carrier	4	15
Air Carrier	0	0
Shipper	0	17
Police	0	3
Firefighters	0	14
Others	6	10

Tariff and Rate

The Tariff and Rate Section is responsible for establishment of reasonable rates, schedules and levels of service of public service common carriers. The section must ensure proper filings, provide for consumer complaint investigation, provide technical advice to the general public and regulated carriers and provide for a general regulatory review of certificated public service corporations.

The goal is: to ensure adequate public transportation at reasonable rates with convenient dispatch; to promote safety of passenger transportation; to improve on availability of services and assistance in resolving complaints; and to conduct periodic audits to ensure compliance with established tariffs and schedules.

A quarterly information bulletin has been developed by the section to provide helpful hints and basic transportation information to the general public.

The Tariff Section's programs to date have resulted in more regulated carriers being brought under uniform accounting procedures, and an

increase of 29 percent in the number of audits conducted in rate increase proceedings. A more thorough review of rate increase applications resulted in a decrease in the amount requested or granted. This resulted in approximately \$200,000 in savings to the rate payer and the general public. The following statistics compare program results during the past three fiscal years.

TARIFF AND RATE SECTION MOTOR TRANSPORTATION DIVISION	ACTUAL FY 75-76	ACTUAL FY 76-77	ACTUAL FY 77-78
A. DOCKETED MATTERS			
1. Rate Increase	55	98	63
2. Financing	0	9	4
3. Order to Show Cause	1	13	8
4. Suspended Matter	2	13	7
5. Short Notice Application	17	7	13
6. Change of Service	<u>2</u>	<u>6</u>	<u>9</u>
7. Total	77	146	104
B. CONSUMER COMPLAINTS			
1. Overcharge	13	28	21
2. Service	18	57	47
3. Loss and Damage	24	21	29
4. Other	<u>0</u>	<u>0</u>	<u>29</u>
5. Total	55	106	126
C. HEARINGS			
1. Number of Hearings	59	79	79
2. Number of Hearing Days	62	79	68
D. TARIFF FILINGS			
1. Motor Carriers	463	502	520
2. Railroads	191	216	288
3. Air Carriers	20	43	61
4. Passenger Carriers	<u>62</u>	<u>41</u>	<u>55</u>
5. Total	736	802	924

TARIFF AND RATE SECTION MOTOR TRANSPORTATION DIVISION	ACTUAL FY 75-76	ACTUAL FY 76-77	ACTUAL FY 77-78
E. TELEPHONE ACTIVITY			
1. Rate Quotation Request			
2. Complaint			
3. Other	(1)	(1)	(1)
4. Total			
F. AIR COMMERCE ACTIVITY			
1. Air Ambulance Inspections	(2)	(2)	150
2. Compliance Surveys			34
3. Accidents Investigated			1
4. Air Ambulance Attendants Certified			31
G. PASSENGER TRANSPORTATION ACTIVITY			
1. Taxicab Inspections			147
2. Bus Inspections			20
3. Drivers Licensed			(3)
4. Accidents Investigated	(2)	(2)	1
5. Compliance Surveys			22
6. Time Schedule Revisions			28
H. MOTOR CARRIER ACTIVITY			
1. Compliance Surveys			
2. Tariff Violations Found			
3. Number of Overcharges Found			
4. Number of Undercharges Found	(1)	(1)	(1)
5. Dollar Amount of Refunds Directed			
6. Time Schedule Revisions			
I. AUDIT UNIT ACTIVITY			
1. Audits Conducted	9	13	31
2. Percent of Total Hearings	16.6	25	39
3. Reduction of Dollar Amount of Request	N/A	73,000	200,000
4. Audits - Other than Rate Increases	(1)	(1)	(1)
5. Dollar Amount of Fines Assessed for Delinquent Financial Reports	2,100	900	3,425

(1) New Service Measurement to be added FY 78-79.

(2) Not a part of Tariff and Rate Section in FY 75-76, FY 76-77.

Safety Enforcement

The Enforcement Section is responsible for: investigating complaints of motor carrier operations; economic regulation for the state regarding the transportation of property and/or passengers for hire; safe operation of common, contract and private motor carrier traffic upon the highways within the state in compliance with adopted Federal Motor Carrier Safety Regulations; statewide terminal compliance survey audits of Arizona-based carriers.

Investigators' duties are to enforce the provisions of 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 as motor carriers. Members of this section are all duly constituted peace officers.

The goal is to promote general motor carrier safety, through periodic safety inspection of transport vehicles; terminal audit checks of personnel records, maintenance procedures, and safety checks of vehicles. The division conducts safety checks of vehicles entering through the state's ports of entry and by use of road patrols; mini-roadblocks are used to balance the effort and provide a check on the effectiveness of the overall program.

During FY 78, with a staff of 31 investigators, including supervisors, a concentrated effort was made to strategically locate investigators in high traffic and accident areas, provide for increased road patrol unit activity, and provide training for port of entry personnel to increase their utility in all areas. The following statistics compare program results during the past two fiscal years:

ENFORCEMENT	FY 77	FY 78
Units Safety-Inspected	48,849	62,355
Warning/Repair Orders Issued	41,338	65,839
Out-of-Service Vehicle	4,145	5,247
Out-of-Service Driver	360	444
Terminal Audits	434	360
Terminal Violations	4,546	2,921
Investigations	158	75

CITATIONS ISSUED	FY 77	FY 78
No Identification Stamps	495	443
No Authority-Exempt	182	261
No Authority-Non-Exempt	147	295
Safety	4,048	5,538
Dangerous Drugs	121	312
Hazardous Materials	231	307
Other	716	1,113
Total Citations	5,940	7,901

Emergency Vehicles

The Emergency Vehicle Section has responsibility for establishing regulations, standards, licensing and certification procedures relating to both public and private ambulance services throughout the state. To ensure effective, sanitary and prompt service, a comprehensive vehicle inspection program is conducted and the staff is responsible for the receipt, investigation, and resolution of consumer complaints against the ambulance industry or any of its members. Technical guidance is provided as needed. The division is responsible for conducting public hearings required for establishing new service, as well as correcting deficiencies which cannot be corrected otherwise.

The goal is to promote and upgrade overall standards of first care service to the general public through regulation of such service, the completion of at least three inspections annually of each ambulance service, to resolve consumer complaints within 90 days of filing, to provide timely hearings on matters affecting transportation of the sick and injured, and the reduction of personnel certification time to one day.

Present programs have resulted in all ambulance services being inspected at least once during the fiscal year with reinspection conducted on those requiring follow-up action. Ninety-five percent of all consumer complaints were completed by the close of the fiscal year which saw a 40 percent reduction in the number of such complaints. State standard examinations were introduced to determine training levels, and assistance was provided to numerous organizations attempting to start first-care services and to state agencies involved in providing emergency medical

services. One thousand, one hundred forty-four persons were certified, generally within a three-day period.

Authority

The Authority Section administers the State's Motor Carrier Act, and rules and regulations relating thereto. Registration of all interstate exempt and I.C.C. regulated carriers, cancellation or registration of new carriers, issuance of annual identification stamps to carriers and to new carriers throughout the year, the maintenance of insurance files on all registered carriers, and acceptance for filing and scheduling for hearing, applications for intrastate common and contract authority fall under this section. Hearings on farm products applications, preparation of a recommended order for the Commissioners to consider, and administering the reciprocal agreement program between Arizona and other states are additional responsibilities.

This program ensures common and contract motor carriers provide economical and efficient service, without unjust discrimination, undue preferences or advantages and unfair or destructive competitive practices by unregulated carriers while providing adequate transportation service to the general public.

Programs to date have seen the implementation of modified procedures to expedite the issuance of licenses to farm produce haulers, reducing the regulatory process by approximately two months. Preparation of transcripts on these hearings by members of the division staff reduced court reporting costs. The revision of certain administrative rules was accomplished to clarify and/or delete certain restrictive practices, and several reciprocal agreements with other states were completed. Additionally, the section processed more than 2,350 applications for authority, issued 1,658 new licenses to persons not previously registered, licensed 118, 952 power units and scheduled approximately 200 intrastate matters for public hearing. Analysis indicates the largest increase in registered carriers has been that of interstate motor carriers. At the end of the fiscal year, there were in excess of 5,000 interstate motor carriers registered with the Commission. This activity generated \$660,230 during Fiscal Year 1977-78.

The complexity of issues presented to the Commission in proceedings for new service authorities or extension of existing authorities and the volume of testimony relative to them, have been noticeably more pronounced than in preceding years. Many other matters of interest to the public and to the motor carriers were handled by the section during this

fiscal year, and adjusted informally through correspondence and personal interviews by supervisors and staff members.

Plans

Division plans for the coming year include consolidation and expansion of programs now in effect. Greater attention will be paid to out-of-state carriers hauling hazardous materials and more time will be spent with in-state operators to educate them on the fine points of handling dangerous materials. The program to upgrade rail crossings will be continued, new ports of entry will be manned with enforcement officers checking more trucks. All rate applications will be audited beginning in 78-79, and a certification program for taxi drivers should be completed by the end of the year.

Revision of administrative rules governing ambulances has a high priority with an eye toward reducing certification time and regulatory lag time. The Authority Section will continue to review and recommend discarding regulations which are no longer necessary. Improvements through consolidation of multiple certificates, and weeding out of dormant certificates will continue. The division is initiating tracking program of all certificates to reduce lag time, increase accuracy, and make the Commission more responsive.