

# ARIZONA CORPORATION COMMISSION



Diamond Anniversary

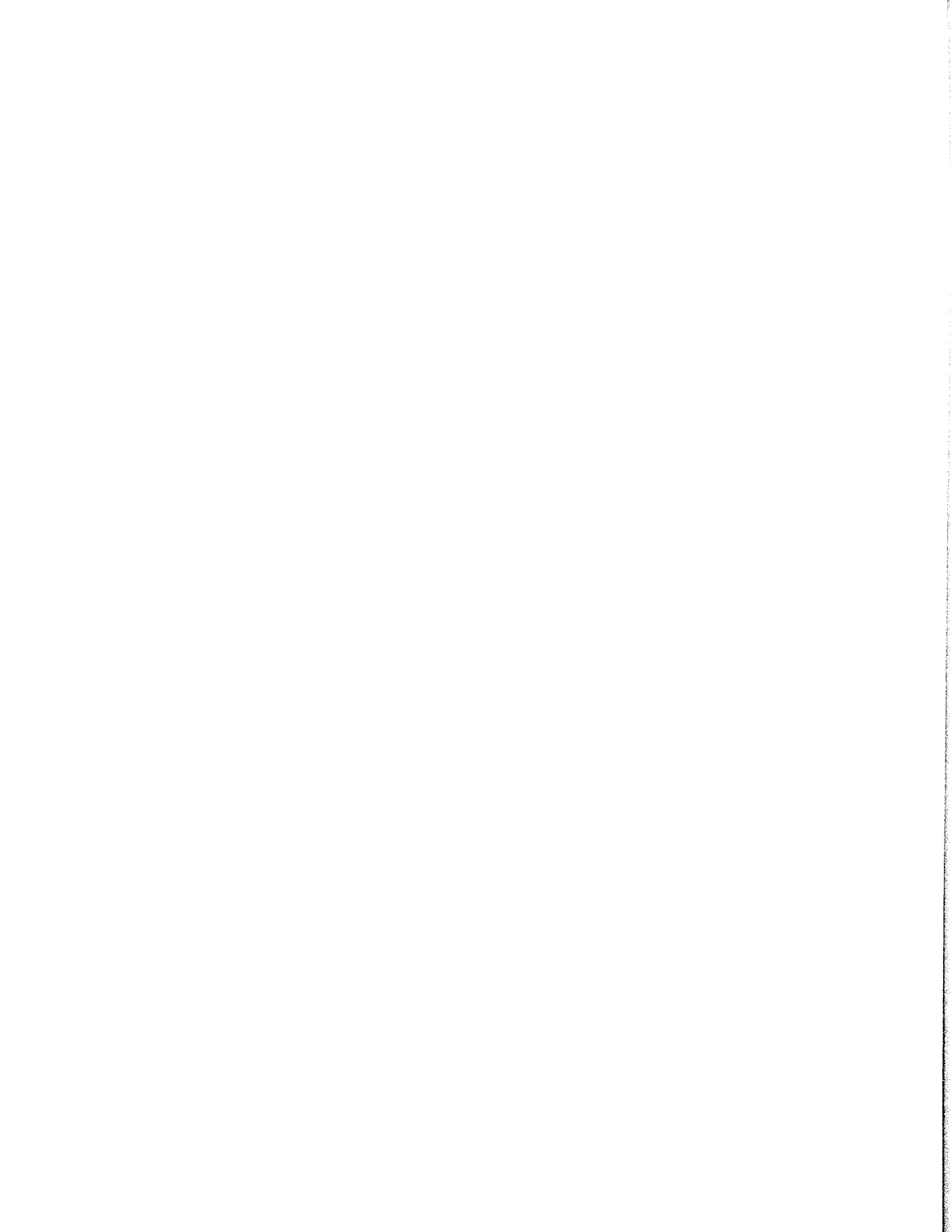


# 75th ANNUAL REPORT

## 1986-87

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1200 West Washington  
Phoenix, Arizona 85007

**TUCSON OFFICE**  
402 West Congress  
Tucson, Arizona 85701



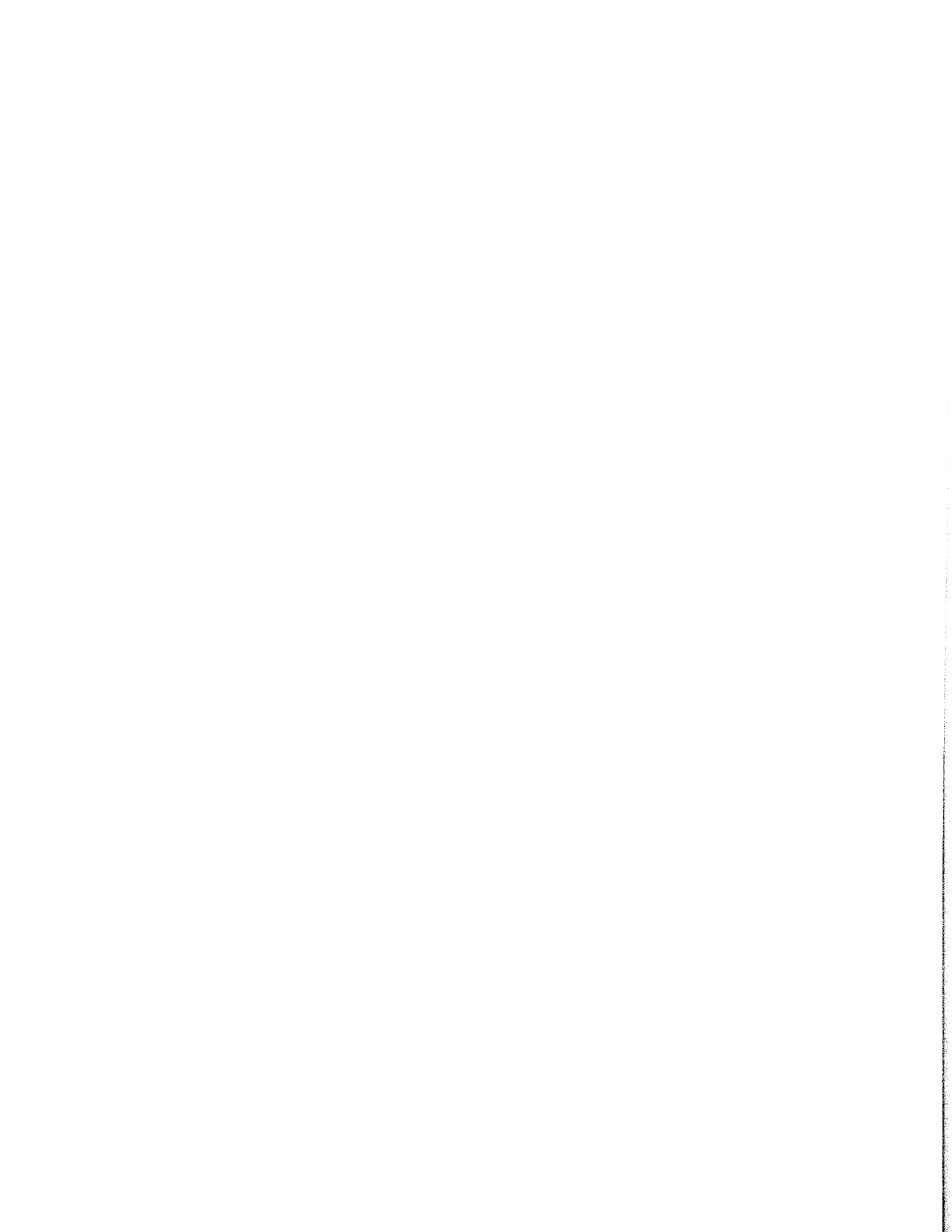
# **ARIZONA CORPORATION COMMISSION 75th ANNUAL REPORT**

**JULY 1, 1986 - JUNE 30, 1987**



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1200 West Washington  
Phoenix, Arizona 85007  
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# FOREWORD

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The Arizona Corporation Commission was created by Article XV of the Arizona Constitution in 1912. It is comprised of three Commissioners elected by the people of Arizona, each for a six-year term, with one Commissioner elected every two years. In the event that a vacancy occurs, an interim Commissioner is appointed by the Governor to serve until the next general election.

This Annual Report addresses the transactions and proceedings of the Arizona Corporation Commission during the period July 1, 1986 - June 30, 1987. As required by Arizona Revised Statutes, this report was transmitted to the Governor of the State of Arizona. Additionally, the Corporation Commissioners, recognizing the broad interest in and support of the Commission activities, have provided copies to the following:

**Executive Officers**

The Secretary of State  
The State Treasurer  
The Attorney General

**Arizona Legislature**

President of the Senate  
Speaker of the House of Representatives  
All members of the Senate  
All members of the House

Additional copies can be acquired by contacting:

Office of the Executive Secretary  
1200 West Washington  
Phoenix, Arizona 85007

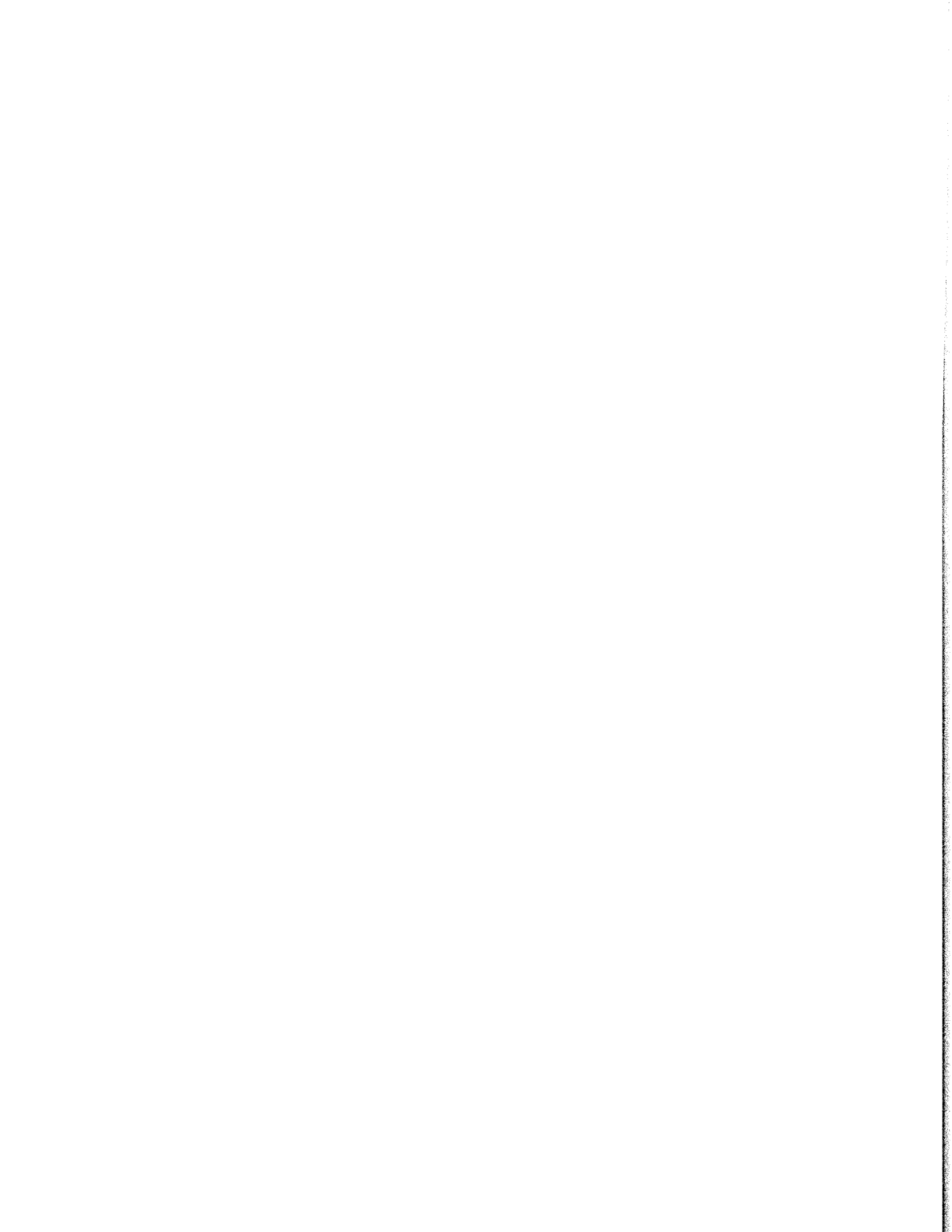
## **HISTORICAL NOTE AND DEDICATION**

During the past 75 years, Arizona has developed into a prosperous state, recognized as one of the fastest growing and most forward looking in the Nation. The Corporation Commission is proud of its numerous contributions to the citizens of Arizona and the prosperous growth. It is fitting that this, the Diamond Anniversary Report be dedicated to the past and present Corporation Commissioners whose efforts and reasoned judgement have benefited us all.

# ARIZONA CORPORATION COMMISSION ROSTER OF CORPORATION COMMISSIONERS SINCE STATEHOOD 1912

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





# ARIZONA CORPORATION COMMISSION SEVENTY-FIFTH ANNUAL REPORT

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# COMMISSIONERS



**MARCIA WEEKS**

Chairman

Marcia Weeks is a resident of Phoenix and was elected to the the Commission for a six-year term beginning January 1985. She is a graduate of the University of Arizona. Commissioner Weeks previously served three terms in the Arizona State Senate where she was Chairman of the Senate Finance Committee. She was elected Chairman in January 1987.



**RENZ D. JENNINGS**

Commissioner

Renz Jennings, an Arizona native, was elected to the Commission for the term beginning January 1985. Chairman Jennings has a J.D. from the ASU College of Law and served three terms in the Arizona House of Representatives prior to his election to the Commission. He has been elected to a second term to run through January 1993.

# COMMISSIONERS



**SHARON B. MEGDAL**

Commissioner

Sharon Megdal was appointed to the Corporation Commission by Governor Bruce Babbitt in September 1985. She was a member of the University of Arizona Economics Faculty at the time of her appointment. Dr. Megdal has an undergraduate degree from Douglass College of Rutgers University, a Masters in Economics from Princeton, 1977 and a Ph.D. in Economics from Princeton, 1981. Her term expired in January 1987.

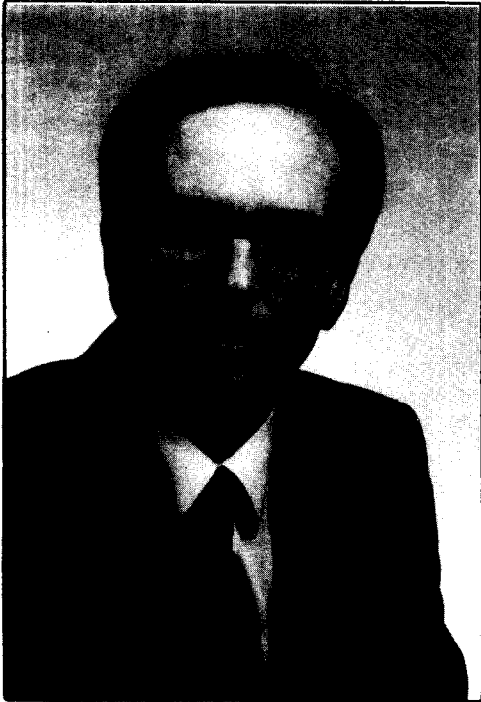


**DALE B. MORGAN**

Commissioner

Dale Morgan was elected to the Commission in November 1986 for the term beginning January 1987. He is a graduate of the University of Tulsa and the Sparton School of Aeronautics in Tulsa, Oklahoma. Commissioner Morgan is a retired Air Force Officer with service in World War II, Korea and Vietnam. He is also a former member of the Commission staff. His current term will expire in January 1989.

# EXECUTIVE SECRETARY

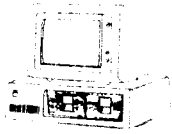


## **JAMES MATTHEWS**

James Matthews has served as Executive Secretary since April 1985. Prior to that he served as Deputy Director of the Arizona Health Care Cost Containment System and spent four years as Legislative Liaison for Governor Bruce Babbitt. Mr. Matthews holds a B.A. degree from the University of New Mexico and an M.P.A. from Arizona State University.

The Executive Secretary is the Chief Executive Officer for the Arizona Corporation Commission. He is responsible for daily operations in all Divisions and the development and implementation of Commission policies.

The Executive Secretary coordinates activities for each Division, provides overall agency management and planning, coordinates public and media information and serves as inter-governmental and legislative liaison for the Corporation Commission.



# ADMINISTRATION DIVISION



**Philip R. Moulton, Director**  
**Beth Ann Burns, Chief Hearing Officer**

The Administration Division plans, coordinates and directs the fiscal and administrative services necessary to support all Divisions of the Commission. These activities include accounting, payroll, purchasing, personnel and budgeting. In addition to these administrative functions performed by the Business Office, the Division has responsibility for providing data automation support for processing all official records, preparation of the Open Meeting agendas, and monitoring legislative activities. The Hearing "Division" is placed organizationally within this Division; however, activities are under the Chief Hearing Officer who has the same authority as other Division Directors.

## **DATA PROCESSING**

The Corporation Commission has an in-house Honeywell minicomputer and also is a user of the Department of Administration's Data Center computer. Major applications of the minicomputer include agency-wide word processing, a Case Management System which tracks and reports status of all cases filed with the Commission, and a Securities Registration and Enforcement System.

During FY 1986-87, the Commission continued to achieve improvements in the areas of system development and the acquisition of associated hardware. A new high speed line printer was installed to accommodate the higher volume reports out of the newly implemented applications system. The Securities Registration System, which tracks all registrations of Securities Broker/Dealers and Securities, was redesigned to fully automate the registration process and be handled totally in-house on the minicomputer.

Additional hardware was installed to remotely connect a section of the Utilities Division, which moved off-site, to the in-house computer for word processing. Also, two telephone lines were put in place for a dial-up access of the Department of Administration's Data Center Staff to ease application development efforts. Local area networks in two divisions were expanded by numerous workstations. The network in the Legal Division was connected to the Honeywell minicomputer for document exchange between Honeywell workstations and IBM PC's.

## **DOCKET CONTROL**

The Docket Control Section maintains the official records for the Utilities and Securities Divisions of the Corporation Commission. In this regard, Docket Control's functions are similar to a court clerk's office. Because this section is responsible for all official dockets, another of its main functions is to assist the public and staff in researching the files and transcripts of cases.

Major activities accomplished during FY 1986-87 include the following:

Filings Docketed and Distributed	3,576
Research Activities/Assisting Public	4,377
Dockets Microfilmed	2,373
Daily Updates of Pending Action	4,476

## HEARING "DIVISION"

Under the supervision of the Chief Hearing Officer, hearings are designed to elicit information and physical evidence on which the Commissioners base their ultimate decisions. Hearing Officers take testimony, make rulings from the bench, and determine points of law as they apply to any given proceeding. They also draft recommended orders for the Commissioner's consideration and approval and issue various procedural orders on their own authority, subject to Commission review. The Hearing Division has the additional responsibility of reviewing all utilities-related orders presented to the Commission whether or not such orders originated from the Hearing Division itself. A summary of the 176 hearings held during FY 1986-87 is shown on the next page. These matters encompassed some 283 days of evidentiary hearings. Activities also included the submission of 256 Opinions and Orders for consideration at Open Meetings.

### HEARINGS CONDUCTED FOR FISCAL YEAR 1986-87

Type of Hearing	NO. OF HEARINGS
Rates	32
Transfers	6
Certificates of Convenience and Necessity	32
Order To Show Cause and Complaints	26
Financing	2
Fuel Adjustments	2
Rules (new and ammended)	5
Deletions	1
Adjudications	7
Miscellaneous (oral argument, motion to compel, etc.)	16
Corporations Division	1
Railroad/Safety Division	1
Public Comments	8
Generic Hearings	3
Revocations	1
Pre-hearing Conferences	13
Securities Division	20
	<u>TOTAL 176</u>

### NUMBER OF HEARINGS BY INDIVIDUAL HEARING OFFICERS

June 30, 1986 to December 31, 1986		January 1, 1987 to June 30, 1987	
Thomas L. Mumaw	14	Thomas L. Mumaw	13
Jerry L. Rudibaugh	32	Jerry L. Rudibaugh	18
Marc E. Stern	23	Marc E. Stern	17
Cheryl K. Hachman	19	Cheryl K. Hachman	8
Evo J. DeConcini	18	Evo J. DeConcini	14
Sub Total	<u>106</u>	Sub Total	<u>70</u>
		<u>TOTAL</u>	<u>176</u>

**OPINION AND ORDERS BY HEARING OFFICER SUBMITTED FOR OPEN MEETING**

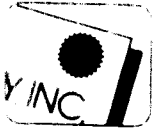
Thomas L. Mumaw	33
Jerry L. Rudibaugh	67
Marc E. Stern	77
Cheryl K. Hachman	28
Evo J. Deconcini	51
<b>TOTAL</b>	<b><u>256</u></b>

**NUMBER OF HEARING DAYS FOR INDIVIDUAL HEARING OFFICERS**

Thomas L. Mumaw	31
Jerry L. Rudibaugh	68
Marc E. Stern	49
Cheryl K. Hachman	88
Evo J. DeConcini	47
<b>TOTAL</b>	<b><u>283</u></b>

Orders prepared by Hearing Officers for Open Meeting on Non-Hearing Matters 129

Public comment hearings conducted by the Commissioners 15



# CORPORATIONS DIVISION



**Joan E. Adams, Director**

The Corporations Division is organized for those purposes outlined in Article XIV, Section 8 of the Constitution. It is also charged with the responsibility of administering the General Corporation Code (A.R.S. Sections 10-002 through 10-966; and 10-1002 through 10-1099).

Any organization which operates as a corporation in the State of Arizona is required to file its Articles of Incorporation and an Annual Report with the Commission. Any significant changes in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed in this Division. All filings are public record and available for inspection. Copies of documents may be secured for a minimal fee.

The Corporations Division has limited investigatory powers and no regulatory authority. However, the Articles of Incorporation of an Arizona corporation may be revoked if certain statutory requirements are not met. Likewise, the authority of a foreign corporation to do business in Arizona may be revoked for statutory reasons.

As of June 30, 1987, there were 99,734 corporations operating in the State of Arizona; 85,268 domestic and 14,446 foreign.

The Corporations Division is comprised of three Sections, with each Section designed to perform specific functions. The Division also provides staffing for service of Southern Arizona corporations in the Tucson Office of the Corporation Commission.

## **INCORPORATING SECTION**

The Incorporating Section approves and processes all filings directly related to Articles of Incorporation. The section determines availability of corporate names, processes applications filed by foreign corporations seeking the authority to transact business in Arizona, and certifies copies of any and all corporate documents on file for introduction into court and for private business transactions.

The Section works in conjunction with the Departments of Real Estate, Insurance, Banking and the Registrar of Contractors to ensure consistency between agencies relative to filing requirements. It also works closely with the Office of the Secretary of State. The laws pertaining to corporate names are similar to those governing trade names, which are administered by the Secretary of State. No corporate name can be approved if the Commission determines it to be the same or deceptively similar to an existing corporate or trade name. By law, both corporate and trade names must be checked before the Commission approves the use of corporate name. As of June 30, 1987, there were approximately 200,000 corporate and trade names registered in Arizona.

The number of documents processed by the Incorporating Section during FY 1986-87 were as follows:

Domestic Articles of Incorporation	11,943
Foreign Applications for Authority	2,508
Domestic and Foreign Amendments	2,548
Certificates of Good Standing	8,551
Certification of Orders	5,644
Domestic and Foreign Mergers	666



## **ANNUAL REPORTS SECTION**

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

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

The Commission is authorized by A.R.S. 10-095 and 10-1052 to revoke a domestic corporation's Articles of Incorporation or a foreign corporation's authority to transact business in Arizona if specific filing requirements are not met. Sixty days prior to revocation, the Commission must issue a notice of delinquency to the corporation. All delinquencies and revocations are handled by the Annual Reports Section.

In FY 1986-87, this Section processed the following:

Annual Reports	82,309
Delinquency Notices	34,840
Revocations	13,638

## **RECORDS SECTION**

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

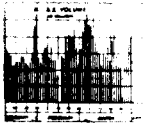
The Section also provides a telephone information service for public inquiries regarding corporate status and general information. The recorded number of incoming telephone calls during FY 1986-87 exceeded 700 daily. An incoming WATS line was installed this year to provide toll-free service to Arizona residents living outside the metropolitan Phoenix and Tucson areas.

The Corporation Commission acts as an agent for Arizona corporations whenever a corporation does not maintain a statutory agent or when the agent cannot be located. In these instances, service of process directed to the Commission are accepted and processed by the Records Section.

In FY 1986-87, the Records Section filmed over 600,000 documents, accepted service of process on behalf of approximately 300 corporations and sold over 152,000 copies of records on file.

## **TUCSON CUSTOMER SERVICE**

Residents of Southern Arizona are offered the convenience of filing their original corporate documents and obtaining corporate information directly from the Corporations Division in Tucson. The Tucson Office, with the exception of maintaining records, performs essentially the same functions as the Phoenix Office. All documents filed in Tucson are sent to the Phoenix Records Section for retention.



# SECURITIES DIVISION



**Matthew Zale, Director**

The Securities Division of the Arizona Corporation Commission is responsible for the Securities Act of Arizona (the Act) and the Rules and Regulations promulgated thereunder. The Division is comprised of two sections, Regulation and Enforcement.

## **REGULATION SECTION**

The Regulation Section is involved in the review of the applications for exemption from the registration provisions of the Act; in registering salesmen, dealers, and securities under the Act; and in drafting amendments to the Act and to Rules and Regulations. The Section participates in earlier stages of the capital formation process through its response to "No-Action" and interpretive letters and pre-filing conferences with industry and issuers.

During FY 1986-87, the Regulation Section of the Division processed 31,565 salesmen's applications and 2,949 transfers of such salesmen between dealers. The Section also processed 1,095 dealer registrations. During the year, there were 3,804 securities offerings registered, while 372 issuers qualified for exemptions from the registration requirements of the Act.

This Division continues to make its staff available to issuers through pre-filing conferences in which a potential issuer and its counsel meet with members of staff to discuss applications to register securities. The time a filing spends in the review process is significantly reduced by this program.

Several members of the regulation Section were active participants in national committees of the North American Securities Administrators Association, Inc. The primary purpose of these committees is to ensure uniformity among the states, to facilitate compliance with the various securities laws by applicants, and to develop amendments to selected guidelines and procedures reflecting a constantly changing marketplace and industry.

## **ENFORCEMENT SECTION**

The Division's Enforcement Section maintains an active program in order to ensure integrity in the marketplace and preserve investment capital formation process, rather than permitting it to be lost to a swindle or a deceptive practice.

The Arizona Corporation Commission is granted the authority by A.R.S. Section 44-2032 to: (1) issue an Order to Cease and Desist; (2) apply to Superior Court of Maricopa County for an injunction; (3) transmit evidence to the Attorney General who may petition the Superior Court of Maricopa County for the appointment of a conservator or receiver; and (4) transmit evidence to the Attorney General who may directly institute, or cause to be instituted, criminal proceedings. The Arizona Corporation Commission is also authorized to deny, suspend, or revoke a dealer or salesman's registration. This latter remedy, and item 1) above, are Commission administrative processes.

During FY 1986-87, the Division initiated 82 investigations and had a total of 94 cases under investigation. It instituted 67 administrative proceedings and transmitted evidence to the Attorney General which resulted in 1 civil case involving 4 defendants and 1 criminal case involving three defendants.

The Division makes substantial commitments to its cases once litigation is commenced. Its investigators and certified public accountants become essential factors in the litigation in terms of marshaling witnesses and providing expert testimony. Because of their familiarity with the facts in the case they have investigated, the Division's attorneys are appointed Special Assistant Attorneys General to assist during litigation. A total of 203 administrative subpoenas were issued in connection with investigation of suspected failures to comply with the Act. These subpoenas resulted in taking 135 examinations under oath of the recipients thereof.

### **ADMINISTRATIVE MATTERS**

The Legislature considered and passed Senate Bill 1214 during the 1987 General Session. The bill, subsequently signed into law by the Governor, repeals A.R.S. 44-2066, the Real Property Securities Act. SB1214 defines within the Arizona Securities Act a real Property Investment Contract as a class of security which must meet the requirements for registration or exemption in order to be sold to the public. This amendment clarifies confusion which existed under A.R.S. 44-2066 pertaining to real property securities. The Division worked closely with the mortgage brokerage industry, and real estate industry, members of the local bar and with the Attorney General's Office in drafting the changes which ultimately became law through the adoption of SB1214.

In addition SB1214 established a fee of \$200 for the initial filing of a Form D in order to claim the safe harbor exemption provided by ACC Rule R14-4-126.



# UTILITIES DIVISION



Wayne E. Ruhter, Director

The Utilities Division monitors the operations of 475 utilities providing service within the State of Arizona. The Division reviews the utilities' finances and recommends to the Commission revenue requirements and rates and charges to be collected.

These regulatory responsibilities and authorities are fully defined in Article XV of the Arizona Constitution and Section 40-201, et. seq., Arizona Revised Statutes; they are further defined in the Arizona Administrative Code Title 14, Chapter 2. Article XV of the Constitution defines "Public Service Corporations" (public utilities) as those furnishing gas, oil, or electricity for light, fuel or power; water for irrigation, fire protection, or other public purposes; or those transmitting message or furnishing telegraph or telephone service.

The preceding Arizona law may be distinguished as comprising enabling powers and directive powers.

**Enabling Powers.** Utility companies must secure Commission approval before undertaking certain actions. The Commission is authorized to issue or to deny certificates of public convenience and necessity prior to the construction of a utility facility; to approve or disapprove the issuance of securities and long-term indebtedness; and to approve or disapprove the sale of utility assets and transfers of certificates.

**Directive Powers.** The Commission is authorized to exercise continual review over the operations of the utilities and to act when necessary to further the public interest. This authority includes control over rates, accounting practices, evaluations and service standards. Books and records of utilities are audited for ratemaking purposes. Utilities' plants are inspected for proper construction and design, and also for ratemaking purposes as related to reconstruction costs. Engineers respond to and investigate electrical incidents and accidents while Railroad Safety and Pipeline Safety conduct similar efforts for emergency situations in their respective areas. Compliance specialists ensure that utilities obey Arizona law.

The Utilities Division consists of four groups which fulfill the staff's responsibilities: Accounting and Rates, Economics and Research, Engineering and Safety, and Consumer Services. They oversee the following number of utilities:

Investor-owned electric utilities	5
REA electric cooperatives	11
Gas utilities	8
Telecommunications	22
Water utility companies	386
Sewer companies	38
Irrigation companies	5
	<hr/>
TOTAL	475

## **ACCOUNTING AND RATES GROUP**

The Accounting and Rates Group provides an independent analysis of the financial and ratemaking requests that utilities file for Commission approval. These requests include proposals for rate increases, new tariff provisions, revenue reallocations to various classes of customers, requests for financing, approval for new plant, fuel adjustor revisions, depreciation rate realignments, utility purchase and acquisition arrangements, contractual arrangements for acquiring plant for public service, and a variety of other accounting and ratemaking issues. The group attempts to balance the interest of the utility and its stockholders, the rates paid by customers, and the quality and safety of the utility's service when making recommendations to the Commissioners.

The group provides expert testimony in the area of revenue requirements, cost of capital, rate design, and policy recommendations in areas involving accounting and financial, and ratemaking and tariff issues in the water, wastewater, electric, gas and telecommunications industries.

Streamlining the processing of rate cases and financing applications for Arizona's small water utilities continues to be a major effort by this group. Standardized formats for presenting the Division's position and in supporting the recommended revenues and rate designs in rate cases and certification proceedings have been developed and are currently being refined.

Although, during FY 1986-87 the majority of the group's efforts were directed to the water industry, the group also presented testimony and recommendations in major proceedings involving the gas, electric and telecommunications industries.

**Tax Reform Act of 1986 Workshops.** The Utilities Division Staff conducted workshops on January 28, 1987, and February 12, 1987, to explore alternative regulatory treatment for issues other than tax rate changes raised by the Tax Reform Act of 1986. A major financial problem that affected many of Arizona's smaller utilities was the new taxability of the value of plant contributed by developers and ratepayers. As a result of these workshops, Staff issued a report in September 1987 that recommended alternative methods for accounting for these tax expenses.

## **ECONOMICS AND RESEARCH GROUP**

The Economics and Research group advises the Commission on economic, financial and regulatory issues pertaining to utilities subject to the Commission's jurisdiction. The group reviews tariff filings and rate applications and provides analyses of policy alternatives for the Commission.

In FY 1986-87, Economics and Research staff members reviewed dozens of tariff filings involving all types of utility services. One of the major themes of a number of these filings is the interest of utilities in more flexible rate schedules to meet increasing competition in the provision of some services.

In addition to sponsoring rate design testimony in hearings involving natural gas and telecommunications companies, the group's members presented policy recommendations on mobile telephone service deregulation, telephone directory publication, electric utility performance incentive programs, industrial development electric rates, cogeneration, electric utility cost deferrals, and natural gas transportation service. The group is currently examining policy alternatives in a variety of areas including natural gas bypass and telecommunications pricing and service deregulation.

This group has extensively used its computerized production cost model for electric utilities. The model has proven to be a powerful tool in developing performance incentive programs, in analyzing the adequacy of production facilities to meet demand, in conducting avoided cost analyses, and in assessing the effects of energy conservation measures. The model will be a key feature of the group's work on the Commission's resource planning program.

The Commission and regulated utilities are experiencing many new economic forces such as competition, deregulation, diversification, and nontraditional pricing concepts. To support the Commission in dealing with these ideas and forces, the Economics and Research group has added an additional staff member in 1987 with strong analytical skills and regulatory experience.

With continued expansion of personnel and computer capabilities, this group will be developing greater expertise in such critical areas as resource planning and cost of service analyses. The group will also be addressing the changing financial needs of the utility industry to better protect and promote consumer interests.

**Mobile Radio Common Carrier Workshop.** On October 30, 1986, the Utilities Division Staff conducted a workshop on Mountain Bell's proposal to deregulate mobile telephone service. The workshop was held with Mountain Bell, other providers of mobile telephone services and customers, and was designed to identify the complex problems found by the Commission in addressing deregulation. The information discussed at the workshop provided a basis to proceed with a formal hearing to allow both the customers affected and the companies involved in providing mobile telephone service an opportunity to present formal evidence.

**Water Pricing Workshop.** On August 21, 1986, the Utilities Division Staff conducted a water pricing workshop to study water rates as price signals, water pricing alternatives, and the relationship between water prices and water usage. Three authorities on water pricing presented papers and a panel discussion ensued.

The participants agreed that water prices have important effects on water usage and that water prices should reflect the cost of supplying additional water. Several participants emphasized the importance of education and information in encouraging water conservation. Finally, participants indicated that the revenue impacts of non-traditional pricing methods aimed at encouraging water conservation must be carefully reviewed before implementing new rate designs.

## **ENGINEERING AND SAFETY GROUP**

The Engineering and Safety group consists of three sections: Engineering, Railroad Safety, and Pipeline Safety. This combination has produced an effective use of personnel and has enhanced the Commission staff's ability to provide emergency responses.

### **ENGINEERING SECTION**

Engineering conducts technical reviews of all regulated utilities and assures compliance with accepted service, material maintenance and performance standards.

Engineering monitors and conducts on-site investigations of 386 privately-owned water companies, 38 sewer companies and 12 local telephone companies for assurance of adequate service. This section investigates all incidents, accidents and injuries resulting from the operation of regulated utilities. Engineering also inventories plant facilities for reconstruction cost studies used in rate proceedings and assists the Commission's Legal Division in performing studies used in rate proceedings.

As part of its responsibilities, this section monitors the construction, maintenance and operation of the Palo Verde Nuclear Generating Station, the largest nuclear power plant in the United States. Palo Verde's Unit 1 achieved commercial operation in December 1985 and Unit 2 began commercial operation in September 1986. Palo Verde Unit 3 received a low-power testing license on March 25, 1987. When Unit 3 reaches its anticipated commercial operation in 1988, the costs of this facility will represent the largest single item ever entered into an Arizona utility's rate base.

The Engineering Staff has participated in the prudency audit conducted by consulting firms selected by the Commission for the review of the construction, operation and maintenance of the Palo Verde Nuclear Generating Station. Results of this prudency study, estimated to be completed in March 1988, may affect the magnitude of the costs that can reasonably be included in the rate base for this facility during a rate case hearing.

Continual surveillance of the operation and maintenance of all generating plants will be conducted by the Engineering Section consistent with the resources available.

Inspection of substations and transmission lines is increasing as Staff members represent the Commission on the Power Plant and Transmission Line Siting Committee to determine the environmental compatibility of newly proposed generating stations and electrical transmission lines.

The Engineering Section is also expanding its computer capabilities. All maps depicting utility company certificates of convenience and necessity areas are being put on a Computer Aided Drafting System. Computer programs are also being developed to track the on and off-line times of all electric generating units serving Arizona.

## **PIPELINE SAFETY SECTION**

Pipeline Safety provides state control over enforcement of safety standards and practices applicable to the transportation of gas and hazardous liquids by pipeline. Facilities of gas utility operators are inspected as well as master meter operators such as mobile home parks, apartments, schools and other gas distribution systems beyond the utilities' meters. This Section is also involved in enforcement of the Arizona Underground Facilities Law. As a result of these responsibilities, the section monitors the activities of the 12 major interstate gas operators, 2,000 master metered systems and 3 intrastate hazardous liquid operations.

During FY 1986-87, the U.S. Department of Transportation granted agent status to Pipeline Safety for two interstate gas operators. All 13 Staff members have received Pipeline Safety Inspector certification from the U.S. Department of Transportation.

A total of 770 system operators were inspected for compliance of operation and maintenance. Inspections of 210 pipe replacement sites and 80 new construction projects were also conducted.

Staff provided 24 training workshops to operators of pipeline systems and 10 blue stake training workshops. Also, Staff developed a 10 video tape training series for pipeline operators, the first of its kind in the nation. During FY 1986-87, 99 citations of the underground facility law were issued and \$7,000 in fines were collected and deposited in the general fund. A \$50,000 assessment was made against an operator of a gas system and deposited in the revolving fund.

### **RAILROAD SAFETY SECTION**

Railroad Safety enforces track, freight car, carrier operating practices and other federal railroad safety standards of the Federal Railroad Administration. This section also investigates railroad accidents and complaints throughout the state and works with industry to improve safety standards in the transportation of hazardous materials by rail. Rail-Highway crossings, industry tracks and new railroad construction projects are reviewed and inspected by this section on a regular basis and prior to related Commission actions.

The Corporation Commission, through its Railroad Safety Section, administers the state's share of monies dedicated to improving rail-highway crossing safety devices. Since the inception of this federal/state program, \$10,975,520 in federal funds and \$1,097,552 in state funds have been spent or encumbered to improve safety warning devices on 261 public rail-highway crossings throughout the state.

In addition this section participates in the "Operation Lifesaver" program, a national public awareness program to promote rail-highway crossing safety. The state chairman for this program is a member of the Railroad Safety Section. The Commission's award winning video, "Operation Lifesaver," is not only used in schools and businesses in Arizona, but also is widely used in safety programs throughout the country.

In FY 1986-87, the section's six-man inspection staff inspected 10,021 miles of track, 9,399 freight cars, 714 locomotives and 510 rail-highway crossings. 100 industrial track inspections and 146 operating practices inspections were also made. In addition, Staff investigated 98 railroad related accidents and 38 complaints.

**Railroad Safety Workshop.** A workshop on the transportation of liquefied petroleum gas (LPG) by rail and the storage of LPG tank cars was given for the residents of the Dysart School District on February 19, 1987. Citizen concern over two minor derailments and LPG tank car storage at the Cal Gas LPG Storage plant prompted the need for this workshop between the Commission, Santa Fe Railroad and local residents. The workshop resulted in new transporting and storage policies being initiated.

### **CONSUMER SERVICES GROUP**

Consumer Services investigates complaints regarding the operation, service and billings of public service corporations in compliance with Statutes, Orders of the Commission, approved tariffs, and Commission Rules and Regulations.

Consumers have access to the services of these group members via the regular telephone business lines or through two incoming WATS lines. These WATS lines have been installed solely for the benefit of consumers who must make a long distance call to obtain Staff's assistance.



The following tables list a comparison of inquiries handled by the Consumer Services group during FY 1985-86 and 1986-87.

	<u>1985-86</u>	<u>1986-87</u>
Water Companies	3,596	3,251
Electric Companies	3,225	3,822
Gas Companies	2,052	1,701
Communications Companies	4,544	4,482
Sewer Companies	232	359
<b>TOTAL</b>	<b>13,649</b>	<b>13,615</b>
Service Inquiries	1,466	1,921
New Service Inquiries	1,058	1,062
Billing Inquiries	2,975	4,089
Deposit Inquiries	682	885
Other Inquiries	7,468	5,658
<b>TOTAL</b>	<b>13,649</b>	<b>13,615</b>

During this past year, the Consumer Services group made a significant addition to its of responsibilities -- the formation of the small water assistance program. This program has been developed to assist small water companies in resolving issues that have created problems for them in the past. Staff will conduct workshops throughout the state designed to assist water companies in such areas as rate case preparations, understanding rules and regulations, and bookkeeping procedures. Staff from all groups within the Division will be available to assist targeted companies.

**Adjudication Workshop.** On February 17, 1987, the Utilities Division Staff conducted a workshop to identify and address issues related to the process of adjudicating a nonprofit cooperative as a non public service entity under Commission jurisdiction. The Commission has considered numerous applications for adjudication not a public service but has issued a very limited number of orders granting such an adjudication. As a result of its workshop, the Commission directed the Utilities Division Staff to draft a Policy Directive for Commission adoption on the procedures to be used in future applications for adjudication.

On May 7, 1987, the Commission issued Decision No. 55568 adopting a policy outlining the criteria and guidelines for future applications for adjudication.

**Telephone Assistance Pilot Program.** As a result of a \$3 million Mountain bell refund ordered by the Commission, \$1.8 million was unclaimed by the customers of Mountain Bell. This unclaimed refund was used to set up the Telephone Assistance Pilot Program (TAP). Administered by the Department of Economic Security, almost 2,000 people have received assistance in securing telephone service through the program.

**Tucson Residential Energy Action Team.** The TREAT Program was established with funds from a Tucson Electric Power refund ordered by the Commission. The program assists qualified customers in the Tucson area with energy conservation for their homes. Included in the program are materials and installation of hot water heater jackets, weatherstripping, sun screening, low flow shower heads, and advice on how to conserve. Administered by the Arizona Energy Office, the program has assisted approximately 25,000 homeowners and renters.

**Telecommunications Device for the Deaf.** In an effort to ease communication for the hearing impaired, Consumer Services has installed a Telecommunications Device for the Deaf (TDD). This device allows the hearing impaired to use a keyboard that is coupled with a screen display and paper printout as a means of sending and receiving messages over telephone lines. A similar keyboard within Consumer Services allows Staff to engage in two-way conversation with hearing impaired Arizonans.

### LIBRARY

The Division maintains a library containing research materials which include legal, technical and reference publications as well as federal and state documents with special emphasis on utility-related issues

### OPEN MEETINGS

The Commission conducts Open Meetings on a regularly scheduled basis for the purpose of decision making. During FY 1986-87, the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Water & Irrig	Sewer	Tele & Comm	RR	Total
Rate Matters	6	1	81	5	3	0	96
Transfers	2	0	19	0	0	0	21
Fuel Adjustments	4	10	1	0	0	0	15
Certificates	2	0	27	5	5	0	15
Orders to Show Cause	2	0	5	0	0	0	7
Financing Matters	9	0	18	0	0	0	27
Formal Complaints	8	4	19	1	14	1	47
Tariff Filings	8	11	9	4	72	0	104
Grade Crossings	0	0	0	0	0	25	25
Others	17	1	22	0	4	0	44
<b>TOTAL</b>	<b>58</b>	<b>27</b>	<b>201</b>	<b>15</b>	<b>98</b>	<b>26</b>	<b>425</b>

### RATE CASES

A major portion of the Utilities Division's responsibility is rate review and determination of a reasonable return on fair value for public service companies. A.R.S. Section 40-250 requires that all public service corporations obtain Commission approval before establishing or changing any rate, fare, toll, rental, charge, classification, contract, practice rule or regulation. With the exception of small public service corporations with gross operating revenues derived from intrastate operations of less than \$250,000, all such authority granted must be determined in a public hearing before the Commission. Preparation for a major rate case begins from the time of the utility's initial filing and takes approximately four to six months before the hearing takes place. The Commission has had several major proceedings this year which are individually described in Appendix B relating to electric, gas, telephone, water and sewer issues.

## REVENUES

The Division collects an annual assessment from the utilities, as established by A.R.S. Sections 40-401 and 40-401.01. The total revenue collected by assessment during FY 1986-87 was as follows:

	UTILITIES		TOTAL
	REV. FUND*	RUCO**	
Electric	\$2,555,901	\$464,489	\$3,020,390
Telephone	1,196,554	236,660	1,433,214
Gas	515,278	110,330	625,608
Water	71,674	24,057	95,731
Sewer	12,469	4,290	16,759
Communications/Mobile Radio	43,515	0	43,515
<b>TOTAL</b>	<b>\$4,395,391</b>	<b>\$839,826</b>	<b>\$5,235,217</b>

NOTE: Assessment rates were computed as follows:

\*0.1474 percent of intrastate total gross operating revenue

\*\*0.0682 percent of intrastate residential gross operating revenue



## LEGAL DIVISION



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**Timothy M. Hogan, Chief Counsel**

Effective July 1, 1983, the Legal Division was created to provide legal assistance, advice and representation to the Commissioners and each division of the Commission except the Securities Division.

Matters handled by the Legal Division fall into four general categories: Commission hearings, court cases, administrative matters and special projects.

During FY 1986-87, the major portion of the Division's resources were consumed in Commission hearings. The Division helped prepare and present hearings on 155 matters. Certain rate cases, such as those involving the Arizona Public Service Company and Southwest Gas Corporation, where tens of millions of dollars in potential rate increases were at stake, took several months to prepare and present.

In addition, the Division is called upon for legal advice and assistance on all manner of proceedings before the Commission. The Division was responsible for a total of 959 matters presented to the Commission during FY 1986-87. This case count includes the 155 matters cited above which required representation in connection with Commission hearings.

When a party to a Commission hearing is dissatisfied with the Commission's final decision, that party may appeal through the court system. During FY 1986-87, the Legal Division defended the Commission in 32 court cases. Because of the complexity of the issues, and the number of courts through which appeals may be pursued, these court cases will probably require years of fairly constant attention from the Legal Division. During this time, the Legal Division will consult with the Commissioners in executive session to continue to provide legal advice.

Various administrative matters also require the involvement of the Legal Division. During FY 1986-87, the Division drafted and approved numerous contracts, drafted proposed rules and legislation, advised as to the legal ramifications of personnel matters, and answered countless informal questions about the legal meaning of constitutional and statutory provisions of law pertaining to utility regulation or to the Commission's responsibilities in incorporating and safety matters.

Finally, the Legal Division is involved in numerous special projects on behalf of the Commission. During FY 1986-87, the largest of these special projects continued to be Palo Verde Nuclear Generating Station. The audit continued at an accelerating pace throughout FY 1986-87. The complexity of the legal issues and the intensification of the auditors' efforts resulting in a corresponding increase in the Legal Division's commitment to the audit. The audit has required most of the time of a senior attorney and a significant portion of the time of a second attorney. It is anticipated that this level of involvement by the Legal Division will continue through the conclusion of the audit and subsequent proceedings. Other ongoing special projects that required involvement from the Commission's Legal Division during FY 1986-87 include Commission efforts to represent state interests in the regulatory proceedings of the Federal Energy Regulation Commission and the Federal Communications Commission, and Commission efforts to streamline the regulation of small water companies, telephone companies, and utility cooperatives. Each one of these special projects has involved a significant investment of the time and other resources of the Legal Division.



## **SOUTHERN ARIZONA OFFICE**



As noted in several areas of this Annual Report, the Corporation Commission maintains a Southern Arizona Office, located in the state office building at 402 West Congress Street in Tucson. This office provides many of the same services as the offices in Phoenix. Sections of the Corporations and Utilities Divisions as well as a senior Hearing Officer from the Administration and Hearing Division are located here. A major study of the office was conducted during FY 1986-87. Among the formal recommendations made were the modifications of the office layout and the acquisition of more space due to growth in assigned staff. These and the implementation of other general service enhancements are scheduled for FY 1987-88.

Workload and achievements have continued to increase in all sections. During FY 1986-87, the Corporations section processed more than 14,375 filings, related documents and other transactions, and collected more than \$470,000 in fees.

Tucson personnel assigned to the Utilities Division provided many consumer oriented services, prepared staff input to rate cases, conducted railroad safety training and inspections, and fulfilled pipeline safety requirements. One additional pipeline safety specialist was added to the Tucson Office staff during FY 1986-87.

The Hearing Officer in Tucson conducted 32 hearings and issued 51 orders and opinions during the Fiscal Year. In addition, he performed many liaison functions within the Southern Arizona Area.

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

 **APPENDIX A** 

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**FINANCIAL DATA SECTION**

**Financial Resources.** Through the budget process, the Arizona Corporation Commission has continued to identify fiscal resource requirements to meet its constitutional and statutory responsibilities. The Commission is funded through three sources: the State General Fund, the Utility Regulatory Revolving Fund and Federal Grants. The first two require legislative appropriation. The Administration Hearing, Securities and Corporations Divisions as well as the Railroad Safety section of the Utilities Division are funded from the General Fund. All other requirements of the Utilities and Legal Divisions are funded through the Utility Regulatory Revolving Fund, which derives its money from assessments on Public Service Corporations. The Federal Funds are obtained as a reimbursement to the Pipeline Safety Section within the Utilities Division for accomplishment of certain federal responsibilities.

Historically, the Commission has generated more revenue from securities and broker registrations, corporation filing fees and miscellaneous service charges than its General Fund requirements. All revenue of this type flows to the State General Fund and is used to defray state government operating costs. The assessment on Public Service Corporations is based on the appropriation approved by the Arizona Legislature and is computed and assessed by the Utilities Division.

The following tables portray revenue and expense data. For comparative purposes, Fiscal Data from FY 1985-86, FY 1986-87 (Report Year) and FY 1987-88 is included:

**TABLE 1  
REVENUE BY SOURCE**

	<u>Actual 1985-86</u>	<u>Actual 1986-87</u>	<u>Estimated 1987-88</u>
Corporate Filing Fees*	3,749,900	3,838,200	3,875,000
Security and Broker Fees*	2,984,500	3,511,400	3,525,000
Misc. Service Charges*	37,700	38,200	40,000
Utility Assessments**	4,502,700	4,395,400	4,426,700
Federal Grant	138,600	124,100	125,400
<b>TOTAL</b>	<b>\$11,413,400</b>	<b>\$11,907,300</b>	<b>\$11,992,100</b>

**TABLE 2  
EXPENDITURES BY DIVISION**

	<b>Actual 1985-86</b>	<b>Actual 1986-87</b>	<b>Estimated 1987-88</b>
Administration/Hearing Division	1,991,400	1,961,200	2,064,700
Corporations Division	875,500	968,700	961,300
Securities Division	1,378,400	1,338,000	1,369,600
Railroad Safety Section	345,000	360,700	538,900
Utilities Division	3,256,400	3,976,200	4,164,900
Legal Division	676,000	717,900	889,800
<b>TOTAL</b>	<b>\$8,522,700</b>	<b>\$9,322,700</b>	<b>\$9,989,200</b>

**TABLE 3  
EXPENDITURES BY FUND SOURCE**

	<b>Actual 1985-86</b>	<b>Actual 1986-87</b>	<b>Estimated 1987-88</b>
General Fund	4,590,300	4,628,600	4,934,500
Utilities Regulatory Revolving Fund	3,793,800	4,570,000	4,929,300
Federal Grant	138,600	124,100	125,400
<b>TOTAL</b>	<b>\$8,522,700</b>	<b>\$9,322,700</b>	<b>\$9,989,200</b>

Deposited in the State General Fund

\* Deposited in Revolving Fund for Utilities and Legal Divisions

Note: General Fund Revenue appropriated by the legislature for FY 1986-87 was reduced \$266,900 through legislative exappropriation in the spring of 1987. Therefore, the actual amount expended during FY 1986-87 was necessarily less than the estimate shown in the Corporation Commission's 74th Annual Report.



# APPENDIX B



## MAJOR CASES

### 1. ARIZONA PUBLIC SERVICE COMPANY (APS)

U-1345-85-156

On May 24, 1985, APS filed an application with the Commission to increase its rates and charges for electrical service. APS also sought a special accounting order relating to the second unit of the Palo Verde Nuclear Generating Station. APS originally filed for a \$78.2 million or 8.6% revenue increase and a 16.5% return on equity. On March 27, 1986, the Company revised its request downward to a 6.0% revenue increase and a 15.0% return on equity.

A procedural order issued by the Presiding Officer September 11, 1985, trifurcated this docket into three phases. Phase I dealt with the ordered reexamination of APS's Purchased Power Fuel Adjustment Clause. Phase II addressed the remaining rate design or tariff issues as well as the traditional revenue requirement issues raised by APS's application. Phase III was limited to APS's requested accounting order for Palo Verde Unit 2.

On February 5, 1986, the Commission issued Decision No. 54886 which granted a Staff Motion to sever the issue of decommissioning costs for Palo Verde Unit 1 (and all the other PV units) from the proceeding and established a separate docket.

#### APS-PHASE I

The Commission issued an order on Phase I July 24, 1986, Decision No. 55118, rejecting APS's fuel adjustment request for \$70 million. The Commission reduced the request by more than one-third, to \$42 million.

The Commission held meetings for the purpose of soliciting public comment in the following communities: Coolidge, Douglas, Flagstaff, Gila Bend, Globe, Phoenix, Prescott, Scottsdale, Sedona, Sun City, Winslow and Yuma.

#### APS-PHASE II

The Commission issued an order on Phase II October 9, 1986, Decision No. 55228, reducing APS's rate request from \$54,602,000 to just under 3% of the amount requested. The Commission vote granted APS \$1,601,000 in increased revenues. APS had originally asked for \$78,235,000, but lowered the request because of declining interest rates. The increase granted is the smallest dollar amount, and the smallest percentage amount, ever approved by the Commission for APS.

The order reduced the basic service charge from \$11.46 monthly to \$7.50 monthly for residential ratepayers using the E-10 and E-12 rates. APS has 308,033 customers on the E-10 rate, and 94,434 customers on the E-12 rate. The basic service charge was reduced from \$11.46 monthly to \$10.00 monthly for the 55,147 customers on the EC-1 rate.

The additional revenue approved by the Commission will come from increased rates for street lighting, an increase of less than 2% in base rate for irrigation customers, and an estimated \$120,000 in revenue from a charge for insufficient fund checks. The order contains no overall increase in rates for residential customers and most business customers.



The rate decision places \$210,000,000 of the cost of the PVNGS Unit 1 in the rate base on an interim basis. Commissioners voted to place that portion of the plant in rate base (about 25% of the total cost), so that the question may be revisited at a later time, following the outcome of a prudency audit of the costs of the entire PVNGS.

APS has approximately 500,000 customers. The Commission order became effective November 1, 1986

### **APS-PHASE III**

The Commission issued an order on Phase III December 5, 1986, Decision No. 55325, granting APS's request for a special accounting/ratemaking order permitting deferral of all capital costs, depreciation, taxes and operating and maintenance expenses associated with Palo Verde Unit 2 to reflect the difference between the time the unit commenced commercial operations and the time a final ratemaking order recognizing the unit would be decided.

To provide incentive to the company to keep its operating and maintenance expenses as low as possible, the Commission established a cap on such expenses. It also ruled that any fines imposed by the NRC could not be included in operating and maintenance expenses. Also, that approval of deferred accounting would not prevent the Commission from revisiting the issue of Palo Verde costs or from disallowing any such costs found unreasonable at a later date.

## **2. ARIZONA PUBLIC SERVICE COMPANY (APS)**

### **U-1345-86-105**

On April 22, 1986, APS filed an application with the Commission requesting, among other things, authorization to enter into one or more sale and lease back transactions relating to all or a portion of the Company's 29.1% undivided ownership interest in the Unit 2 Facilities.

On July 24, 1986, the Commission issued an Order, Decision No. 55120, authorizing the Company, among other things, to "undertake and consummate the Lease Transactions and to take all such actions as may be necessary or appropriate in connection therewith, subject to the limitations and conditions contained in this Decision."

Persuant to the authorization contained in the Order, on August 18, 1986, the Company sold and leased back approximately 30.7% of its 29.1% undivided ownership interest in the Unit 2 Facilities. The Total consideration to the Company from the Initial Lease Transactions was \$341,240,000.

On November 17, 1986, the Company filed a motion requesting the Commission issue and order confirming that decision No. 55120 authorized Additional Lease Transactions.

By Decision No. 55320, issued December 5, 1986, the Commission confirmed that Decision No. 55120 authorized Additional Lease Transactions and confirmed all other aspects of the Order.

## **CITIZENS UTILITIES COMPANYS (CU)**

**E-1032-86-020, et. al.**

On June 26, 1984, several ratepayers filed a complaint with the Commission requesting a hearing to determine rates for Sun City West Utility Company, a subsidiary of CU. Similar complaint petitions were filed on August 22, 1984, and March 11, 1985, involving other divisions and subsidiaries of CU, including Mohave Electric Division, Santa Cruz Electric Division, Santa Cruz Gas Division, Sun City Water Company and Sun City Sewer Company. CU had filed for rate increases for its Tubac Valley Water Company, and Aqua Fria Water Division. All complaints and filings were combined under Orders to Show Cause why CU should not make several changes to rates, management and accounting practices and organization.

Hearings were conducted in four phases beginning June 23, 1986, and concluded October 22, 1986.

On March 19, 1987, the Commission issued Decision No. 55488 that required CU to reduce revenues by \$746,922 (13.8%) for Sun City Water Company, \$671,495 (17.6%) for Sun City Sewer Company, and \$635,854 (23.4%) for Sun City West Utility Company. The Commission issued Decision No. 55535 on April 23, 1987, requiring a revenue reduction of \$549,837 (5.14%) for Santa Cruz Electric Division, \$86,924 (2.62%) for Santa Cruz Gas Division and \$495,117 (1.34%) for Mohave Electric Division. The Commission issued Decision Nos. 55584 and 55585 on June 3, 1987, that granted rate increases to Mohave Water Division of \$29,816 (1.8%), Aqua Fria of \$94,839 (61.3%), and Tubac Valley of \$49,617 (66.0%).

## **4. CITIZENS UTILITIES RURAL COMPANY & CITIZENS UTILITIES CO., KINGMAN TELEPHONE DIVISION**

Separate proceedings were also conducted for Citizens' request to increase telephone rates by \$3,094,118 (46.68%) in its service territory in Mohave County. Hearings were held September 29 through October 4, 1986, in both Kingman and Phoenix. On March 19, 1987, Commission Decision No. 55493 authorized a 19.29% increase in revenues (\$1,278,541).

## **5. MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (MB) E-1051-86-016**

On January 20, 1986, MB filed a Petition for Deregulation of its radio telephone services and the withdrawal of all tariffs relating thereto with the Commission.

On October 1, 1986, the Commission's Utilities Division Staff filed a Motion to expand the docket to include a review of all radio common carrier services provided by either telephone companies or radio common carriers within Arizona.

On March 19, 1987, the Presiding Officer bifurcated the hearing into two distinct phases. Phase I would involve mobile radio common carrier services. Cellular services were specifically excluded from Phase I and will be the subject of a Phase II hearing to be held at a later date.

On July 2, 1987, the Commission issued Decision No. 55633 on Phase I, wherein it approved MB's Petition to Deregulate mobile telephone services.

## **SOUTHWEST GAS COMPANY (SWG) vs. EL PASO NATURAL GAS COMPANY (EL PASO)**

**U-0000-86-034**

On February 12, 1988, SWG filed a Complaint against El Paso alleging that El Paso was a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. Sections 40-201 et seq., and that El Paso was making sales of natural gas to end-users in Arizona without having first obtained a Certificate of Convenience and Necessity from the Commission and without having authorized rates and charges on file.

On March 5, 1986, El Paso filed an Answer to the Complaint denying that it was a public service corporation, and alleging that the Commission's regulation of El Paso was preempted by the Natural Gas Act.

On January 28, 1987, Decision No. 55397, the Commission found that El Paso is not a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. Sections 40-281 et seq., so long as it seeks no new direct sales customers within Arizona. Further, the Commission declared that it lacked jurisdiction over El Paso under the specific facts complained of, and dismissed SWG's complaint.

## **7. TUCSON ELECTRIC POWER COMPANY (TEP)**

**U-1933-86-036**

On February 6, 1986, TEP filed an Application with the Commission wherein TEP requested an Order:

- (1) Approving and authorizing a sale by TEP to San Carlos Resources, Inc. of TEP's interest in Unit 2 of the Springerville Generating Station and such other facilities not included in the Common Facilities and operating lease by TEP as co-lessee with San Carlos from the Wilmington Trust Company in its capacity as owner trustee of the Unit 2 Facilities;
- (2) Declaring that the approval of the Commission is not necessary for a transfer by TEP to San Carlos of TEP's one-half interest in the Common Facilities located at the Springerville Generating Station or in the alternative, authorizing and approving a transfer of TEP's interest in the Common Facilities to San Carlos;
- (3) Approving and authorizing an operating lease by TEP as the co-lessee with San Carlos of the Common Facilities; and,
- (4) Approving and authorizing the stock issuance of up to \$80 million.

A hearing was held in Tucson on June 23, 1986. Commission Decision No. 55119 issued July 24, 1986, approved TEP's application.

