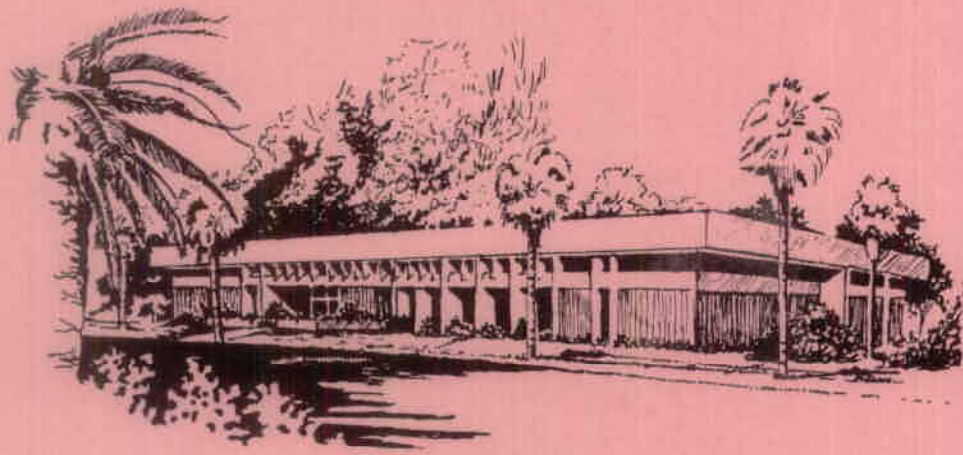




ARIZONA CORPORATION COMMISSION



78TH ANNUAL REPORT 1989-1990

ARIZONA CORPORATION COMMISSION

THE COMMISSIONERS

Marcia Weeks, Chairman
Renz D. Jennings, Commissioner
Dale H. Morgan, Commissioner

EXECUTIVE SECRETARY

James Matthews

DIVISION DIRECTORS

Philip R. Moulton, Administration
Beth Ann Burns, Hearing
Joan Adams Moore, Corporations
Dee Riddell Harris, Securities
Gary M. Yaquinto, Utilities
Timothy M. Hogan, Legal

STATE OFFICE

1200 West Washington
Phoenix, Arizona 85007

SOUTHERN ARIZONA OFFICE

402 West Congress Street
Tucson, Arizona 85701

**ARIZONA
CORPORATION
COMMISSION
SEVENTY-EIGHTH
ANNUAL REPORT
JUNE 30, 1990**

TABLE OF CONTENTS

FOREWORD	i
THE COMMISSIONERS	1
THE EXECUTIVE SECRETARY	2
ADMINISTRATION DIVISION	3
HEARING DIVISION	6
CORPORATIONS DIVISION	7
SECURITIES DIVISION	9
UTILITIES DIVISION	11
LEGAL DIVISION	17
SOUTHERN ARIZONA OFFICE	19

APPENDIX

A. FINANCIAL DATA SECTION	20
B. MAJOR RATE CASES	22

FOREWORD

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

This Annual Report addresses the transactions and proceedings of the Arizona Corporation Commission during the period July 1, 1989 – June 30, 1990. 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 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 may be acquired by contacting: Office of the Executive Secretary, 1200 West Washington, Phoenix, Arizona 85007.



COMMISSIONERS

MARCIA WEEKS
Chairman

Marcia Weeks is a resident of Phoenix and was elected to 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. Her current term will expire in January 1991.



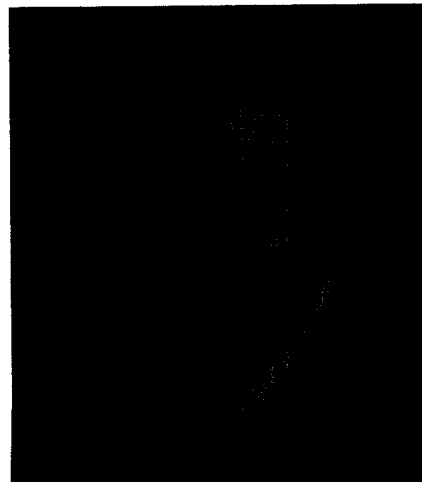
RENZ D. JENNINGS
Commissioner

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



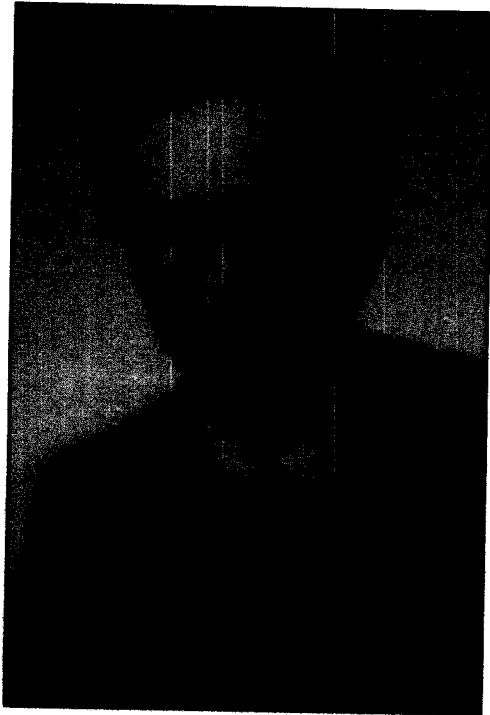
DALE H. MORGAN
Commissioner

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. He was re-elected in November 1988. His current term will expire in January 1995.





EXECUTIVE SECRETARY



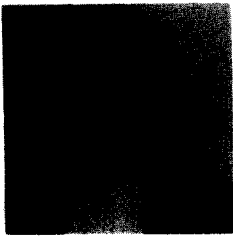
JAMES MATTHEWS

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 a 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's powers and duties are listed in A.R.S. §40-105.

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

Mr. Matthews serves as Chairman of the National Association of Regulatory Utility Commissioners' Subcommittee on Executive Directors. He has been appointed by Governor Rose Mofford to a three year term on the Arizona Disease Control Research Commission.



Philip R. Moulton
Director

ADMINISTRATION DIVISION

The Administration Division plans, coordinates and directs the fiscal and administrative activities necessary to support the Commissioners, Executive Secretary and all Divisions of the Commission. The responsibilities and activities of the Division are carried out by the Business Office, Data Processing Section and Docket Control. The Division Director also serves as the Deputy Executive Secretary and performs the duties of the Executive Secretary during the incumbent's temporary absences.

The Administration Division supports the Office of the Executive Secretary in supervising and administering the overall activities of the Commission's Divisions and employees. The Office of the Executive Secretary performs many administrative functions in conjunction with the Division. These include: coordination of Legislative activities, preparation of the Open Meeting Agendas and keeping records of all proceedings of the Commission, civic activities, and projects of benefit to the Commission.

Legislative Activities. The Commission has broad responsibility to serve the citizens of Arizona through each of its Divisions. In order to do this, the Commission must monitor legislative activities. Each year, the Legislature sets the Commission's budget and enacts new laws which impact not only the Commission, but also the regulated entities, consumers of regulated services and corporate Arizona. The 1990 legislative session produced the following new laws of interest to the Commission:

Utility Assistance Fund. The new law modifies the existing statutes which created a program called the Utility Repair and Assistance Fund. The fund provides eligible recipients with assistance in making utility deposits and owner repairs to utility related appliances or systems. It also continues the life of two existing assistance programs of benefit to senior citizens, one for energy and the other for telephone.

Corporate Document Fax Filing. This law makes it possible for documents required to be filed with the Corporations Division to be faxed to the Commission office. The Filer remains

responsible for payment of any fee or penalty imposed with respect to the delivery. A reproduced document (copy of the fax) satisfies the requirement for an "original" document.

Securities Registration. This law permits the Commission to register securities for small, new or expanding businesses in amounts not to exceed \$1 million annually in order to foster capital formation and economic development. After it became effective May 9, 1990, the new statute increased the amount the Commission is authorized to exempt from registration to \$500,000 (previously \$200,000); the list of transactions exempt from unregistered-securities prohibition was expanded to include some sales to persons not Arizona residents and not present in the state; "Blind pool" offerings are now defined and restricted; numerous statutory fees charged in connection with securities registration were increased; and dishonest or unethical practice became grounds for revoking a securities dealer's registration. An enforcement fund was also created.

Hazardous Materials Management Advisory Council. A Hazardous Materials Management Advisory Council was created to recommend comprehensive HAZMAT procedures for the state. The Commission is represented on the Council.

Open Meeting and Other Proceedings. The Commission meets in five types of forums. In all instances, the activities of the Commission are controlled by the Arizona Open Meeting Law, the Commission's *ex-parte* rule on unauthorized communications, and the Arizona Administrative Procedures Act.

The Commission conducts formal hearings on contested matters such as rate requests, complaints, and securities violations. Evidence is collected at hearing, but no vote is taken. All decisions of the Commission are made in Open Meetings. Open Meetings are conducted after the agenda of the meeting has been made available to the public. In some limited instances, such as legal matters and personnel matters, the Commission may meet in Executive Session.

Hearings, Open Meetings, and Executive Sessions, while administrative in nature, are very formal in process. The Commission usually meets prior to its regular open meetings in a more informal Special Pre-Open Meeting, referred to as a Working Session. In these publicly noticed meetings, the Commission conducts discussion on the matters to be considered at the regular open meeting. Comments may be received from the public, interested parties, and the staff of the Commission. The Commission also conducts Workshops where issues are discussed. No votes are taken or decisions made at either the Working Sessions or Workshops. During FY 1989-90, the Commission met in the following forums:

Working Sessions (Pre-Open Meetings)	16
Regular Open Meetings	18
Special Open Meetings	12
Workshops	5

Civic Activities. Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 1989-90, the Commissioners and employees:

- Received special recognition for the more than \$6,800 contributed to the State Employees Charitable Campaign which supports United Way Agencies, National Health Agencies, International Service Agencies and local non-affiliated agencies.
- Donated nearly \$1,500 to the American Cancer Society in support of Commission staff who participated in the Annual "Climb the Mountain, Conquer Cancer" event.
- Contributed over \$800 of financial and "in-kind" support to a needy family during the holiday season.
- Donated thirty pints of blood in specially arranged blood drives held at the Commission's facilities.
- Fully supported and actively participated in Environmental improvement activities such as the "Clean Air Force" (car pools, Don't Drive One-in-Five Campaign and bus ridership), and recycling of paper and newsprint.

Projects. The Administration Division, under the guidance of the Executive Secretary, is also the primary action office for plans, projects and material of benefit to Commission employees During FY 1989-90:

- The Commission's Affirmative Action plan was developed. The plan, transmitted to the Governor's Office of Affirmative Action, demonstrated that the Commission met overall parity goals but that some protected groups within certain occupational categories were slightly underutilized. Hiring objectives were established to correct these imbalances.
- A twenty-six page "Personnel Handbook for Commission Employees" was published and provided to all current and new employees. The handbook was developed to present the Commission's policies and employment expectations of its employees. The handbook also provides a consolidated presentation of State and Commission Personnel Rules.
- The Commission continued to fund a "Tuition Assistance" program for its employees. The objectives of the program include: improve job capability, performance and morale; encourage personal growth and development; and provide a source of qualified personnel for advancement as vacancies occur. Thirteen employees participated in the program during FY 1989-90 at a cost to the Commission of \$1,066.

BUSINESS OFFICE

The Business Office is responsible for providing all accounting, payroll, purchasing, and personnel support for the Commission as well as budget preparation. All but budget preparation is overseen by the business office manager. The Commission's budget is developed and submitted by the Administration Division Director in coordination with the Executive Secretary and the Directors of the other Divisions of the Commission. Fiscal information related to the budget and expenditures is included in Appendix A.

The Business Office is also the Commission's main point of contact with other state agencies involving business activities. The office works

closely with such state entities as the State Treasurer, General Accounting Office, State Personnel Office, and the State Purchaser's Office. During FY 1989-90, the Business Office: received and processed \$14,000,000 in revenue to the State Treasurer; issued 414 purchase orders; processed 774 travel claims; received and entered into inventory 320 items; and serviced 222 employees through personnel actions and payroll transactions.

DATA PROCESSING SECTION

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

During FY 1989-90, the Data Section staff continued to participate in many operational improvements. In conjunction with Securities Division staff and personnel from the Data Center, improvements were made to the Securities Division's Registration and Enforcement System. Additionally, a Honeywell-LAN gateway was added to allow the Securities Division NOVELL microcomputer network users to access the data base records and information residing on the Honeywell minicomputer. An additional 3174 Controller was also added in the Data Section to accommodate access for more terminals.

Several enhancements to software were also planned during FY 1990 with implementation anticipated during FY 1990-91. These enhancements will speed document updating and ensure more complete and accurate record information being available to the public.

The project initiated in FY 1988-89 to install software on Business Office microcomputers to allow direct interface and interaction with the Arizona Financial Information System "AFIS", continued through FY 1989-90. The Business Office is participating in a test development to evaluate alternate cost efficient methods of transmitting and receiving financial transactions from the Department of Administration's General Accounting Office. It is anticipated that the system will come on-line during FY 1990-91.

Divisions of the Commission continued to add microcomputers to both independent and LAN work stations during FY 1989-90. This was in keeping with the Commission's long range goals of providing optimum computer capability and improving operating efficiency.

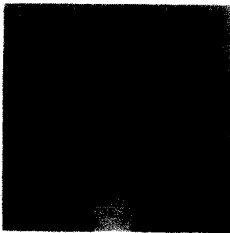
DOCKET CONTROL SECTION

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 1989-90 include the following:

Applications for Hearing Processed	416
Filings Docketed and Distributed	4,659
Research Activities/Assisting Public	5,075
Case Management System	
Maintenance Actions	4,559
Daily Updates of Pending Actions	3,620

The Docket Control section will be transferred to the Utilities Division on July 1, 1990.



Beth Ann Burns
Chief Hearing Officer

HEARING DIVISION

State law confers upon the Commission the authority to hold public hearings on matters involving the regulation of public service corporations, the sale of securities, and the registration of non-municipal corporations. The Hearing Division is responsible for conducting the hearings, analyzing the evidence, and drafting recommended decisions for the Commissioners' consideration and approval.

Under the direction of the presiding Hearing Officer, proceedings are conducted on a formal basis through the taking of direct testimony, the cross-examination of witnesses, the admission of documentary and other physical evidence, and the submission of oral arguments or post-hearing briefs. Evidentiary and procedural rulings are made by the presiding Hearing Officer from the bench.

During FY 1989-90, the five Hearing Officers in the Division conducted 130 public hearings, encompassing a total of 165 days. A summary of hearings is shown below.

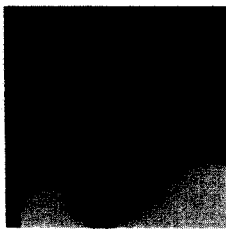
PUBLIC HEARINGS CONDUCTED FOR FISCAL YEAR 1989-90

TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	14
Transfers/Sales	2
Certificates of Convenience and Necessity	19
Orders To Show Cause and Complaints	29
Financing	0
Fuel Adjustment Cases	0

TYPE OF HEARING	NO. OF HEARINGS
Pre-Hearing Conferences	15
Public Comments	9
Rules (new and amended)	3
Adjudications	5
Deletions	3
Revocations	0
Generic Hearings	0
Securities Division	12
Corporations Division	0
Railroad/Safety Group	2
Miscellaneous (oral arguments, motions to compel, etc.)	8
TOTAL	130

Based upon the record evidence presented at public hearings, or filings made in non-hearing matters, the presiding Hearing Officer prepares a recommended order which sets forth the pertinent facts, discusses applicable law, and proposes a resolution of the case for the Commissioners' consideration. The Commission regularly holds Open Meetings to deliberate and vote upon the recommended orders. During FY 1988-89, the Hearing Division prepared a total of 277 recommended orders, 201 for cases involving a hearing and 76 for non-hearing matters.

Throughout the pendency of cases before the Commission, the presiding Hearing Officer may issue procedural orders to govern the preparation and conduct of the proceedings, including: discovery, intervention, the hearing date, filing dates, public notice, and motions. During FY 1989-90, the Hearing Division issued 208 such orders.



Joan Adams Moore
Director

CORPORATIONS DIVISION

The Corporations Division is organized for those purposes outlined in Article XIV, Section 8 of the Constitution. It is also charged with the responsibility for administering the General Corporation Code (A.R.S. §§ 10-002 through 10-966, and 10-0002 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 to Articles 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 nominal fee.

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

As of June 30, 1990, there were 108,700 corporations transacting business in the State of Arizona; 92,662 domestic and 16,038 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.

This Section works in conjunction with the Departments of Real Estate, Insurance, Banking and the Registrar of Contractors to ensure consistency between agencies relative to filing requirements. It also works closely with the Office of the Secretary of State. 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. There are approximately 155,000 corporate and trade names registered in Arizona.

The number of documents processed by the Incorporating Section during FY 1989-90 were as follows:

Domestic Articles of Incorporation	11,285
Foreign Applications for Authority	2,532
Domestic Amendments	2,772
Certificates of Good Standing	5,414
Certification of Orders	8,038
Domestic and Foreign Mergers	761

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 1989-90, this Section processed the following:

Annual Reports	90,840
Delinquency Notices	38,309
Revocations	16,548

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 Service Counter. Hard copies of documents can be purchased at a minimal cost per page.

The Section also provides a telephone information service for public inquiries regarding corporate status and general information. The recorded number of incoming telephone calls during FY 1989-90 exceeded 800 daily. An incoming WATS line is available to provide toll-free service to Arizona residents living outside

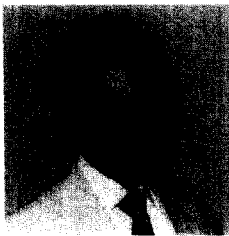
the metropolitan Phoenix and Tucson areas.

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

In FY 1989-90, the Records Section filmed over 623,030 documents; accepted service of process on behalf of 451 corporations; and sold 308,000 copies of documents 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 performs essentially the same functions as the Phoenix Office. All documents filed in Tucson are sent to the Phoenix Records Section for retention.



Dee Riddell Harris
Director

SECURITIES DIVISION

The Securities Division is responsible for administration of the Securities Act of Arizona (the Act) and the Rules and Regulations promulgated thereunder. The Division is comprised of four sections: Corporation Finance, Broker/Dealer, Enforcement, and Financial Analysis.

CORPORATION FINANCE SECTION

The Corporation Finance Section is involved in the review of applications for exemption from the registration provisions of the Act, in registering securities under the Act, and in drafting amendments to the Act and the Rules and Regulations. The Section participates in early stages of the capital formation process through its prefiling conferences with issuers.

During FY 1989-90, there were 3,910 securities offerings registered, while 145 issuers qualified for exemptions from the registration requirements of the Act.

The Division continues to make its staff available to issuers through prefiling conferences in which a potential issuer meets 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.

BROKER/DEALER SECTION

This Section is responsible for administration of licensing procedures for enforcement of the dealer and salesman provisions of the Arizona Securities Act. The Section conducts on-site examinations of dealers to ensure compliance with the Act. The Arizona Corporation Commission is authorized to deny, suspend, or revoke a dealer's or salesman's registration, to assess fines and to order rescission or restitution.

During FY 1989-90, the Broker/Dealer Section processed 39,233 salesmen registrations and 6,803 transfers of such salesmen between

dealers. The Section also processed 1,063 dealer registrations.

ENFORCEMENT SECTION

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

The Arizona Corporation Commission is granted the authority by A.R.S. § 44-2032 to issue an Order to Cease and Desist, apply to the Superior Court of Maricopa County for an injunction, transmit evidence to the Attorney General who may petition the Superior Court of Maricopa County for the appointment of a conservator or receiver, and transmit evidence to the Attorney General who may directly institute, or cause to be instituted, criminal proceedings.

During FY 1989-90, the Section initiated thirty-one investigations and had a total of forty-nine cases under investigation. It instituted four administrative proceedings and transmitted evidence to the Attorney General which resulted in three civil cases involving thirteen defendants and eight criminal cases involving nineteen defendants. Division enforcement efforts resulted in eight temporary injunctions, ten indictments and three criminal convictions. Other cases remain pending.

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 138 administrative subpoenas were issued in connection with investigations of suspected failures to comply with the Act. These subpoenas resulted in taking ninety-four examinations under oath.

FINANCIAL ANALYSIS SECTION

The Financial Analysis Section is staffed by certified public accountants who provide accounting and financial analysis support to the other three sections. The accounting staff is called upon to review financial statements submitted by applicants for registration of securities or as dealers. The CPA's also play an integral role in developing cases for trial. Such cases, to a large degree, involve the findings and conclusions the CPA's reach as a result of their investigative accounting efforts.

ADMINISTRATIVE MATTERS

The Legislature considered and passed House Bill 2685 during the 1990 General Session. The Bill, subsequently signed into law by the Governor, simplified the capital formation

process. First, it created a new procedure for registration of certain securities under a uniform limited offering registration. The Commission recognizes that small issuers raising small amounts of money incur significant costs of raising capital. The new procedures are intended to reduce the costs and burdens of raising capital without sacrificing investor protection. Second, the law created an exemption for the sale of securities to persons who are not residents of Arizona. This amendment clarified an area of uncertainty pertaining to the effect of the Securities Act on such sales. Finally, the Bill created a procedure by which the Division may issue interpretative opinions called no-action letters. Such interpretations may give issuers the necessary guidance to proceed with a transaction in reliance of an exemption and thus avoid the cost of registration.



Gary M. Yaquinto
Director

UTILITIES DIVISION

The Utilities Division monitors the operations of 461 utilities providing service within the State of Arizona. The Division reviews utility company 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 § 40-201, et seq., Arizona Revised Statutes; they are further defined in the Arizona Administrative Code Title 14, Chapter 2. Article XV of the Arizona Constitution defines "Public Service Corporations" (public utilities) as those furnishing gas, oil, or electricity for light, fuel or power; water for irrigation, fire protection, or other public purposes; or those transmitting messages or furnishing telegraph or telephone service.

Arizona utility 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. Utility owned 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 while Railroad Safety and Pipeline Safety investigators conduct similar efforts for emergency

situations in their respective areas. Compliance specialists ensure that utilities obey Arizona law and Commission directives.

The Utilities Division consists of five sections which fulfill the staff's responsibilities: Accounting and Rates, Economics and Research, Engineering, Safety, and Consumer Services. The Division oversees the following number of utilities:

Investor-owned electric utilities	5
REA electric cooperatives	11
Gas utilities	9
Telecommunications companies	26
Water utility companies	369
Sewer companies	37
Irrigation companies	4
TOTAL	461

ACCOUNTING AND RATES SECTION

The Accounting and Rates Section provides independent analyses of the financial and ratemaking requests filed by utilities for Commission approval. These requests include proposals for rate changes and new tariff provisions, requests for financing authority, fuel adjustor revisions, depreciation rate changes, applications for utility purchases and asset transfers, applications for certificates of convenience and necessity, special contract approvals; and special accounting requests. The Section provides recommendations on the various requests only after considering the impact of the recommendation on ratepayers, utility owners, the long-run financial integrity of the utility, the economic conditions present in the service territory, and the quality, reliability and safety of the utility's service.

In addition to responding to formal utility requests, technical assistance is provided to other sections within the Utilities Division when required to respond to questions of utilities, ratepayers, management or the public at large. Additionally, the Section staff

members interact with outside expert consultants, who provide assistance to Section members or supplement the work of Section staff.

The Section staff provide expert testimony in the areas of revenue requirements, including investment level, revenues, and expenses; cost of capital, including the proper portion of debt and equity financing, and the appropriate cost of debt and equity; rate design; and other technical accounting and finance areas. The Section is responsible for developing general policy recommendations for Commission consideration in the areas of accounting, finance, and ratemaking which impact on water, wastewater, electric, gas and telecommunications utilities.

While a large portion of the Section's resources during FY 1989-90 were devoted to water industry matters, Accounting and Rates staff also participated in a number of proceedings involving major gas, electric, and telecommunications utilities. Staff members were actively involved in the review and examination of issues pertaining to the increasingly important area of utility diversification. Section staff provided assistance in analyzing affiliated interest and diversification issues for Arizona Public Service Company, Southwest Gas Company and Tucson Electric Power Company and developed rules on public utility holding companies. Also, in-house training programs were instituted, which included participation from other sections of the Commission.

Section staff is currently revising and strengthening its fuel cost monitoring procedures; updating the rules regarding depreciation standards and practices; and formulating policy recommendations regarding resellers of telecommunication services, as well as those pertaining to cellular telephone service in the rural areas of the state.

ECONOMICS AND RESEARCH SECTION

The Economics and Research Section undertakes economic analyses of utility service costs and pricing, performs technical reviews of tariff filings and special contracts, and carries out policy studies on numerous regulatory matters of interest to the Commission. In conducting its

research, the Section staff uses a variety of computer models and quantitative techniques. Findings and recommendations are presented through special reports, workshops, written testimony in rate proceedings, and in memoranda submitted as part of the Commission's Open Meeting process.

During FY 1989-90, Economics and Research staff members reviewed numerous proposals by utilities to revise and expand their services offerings, especially in the telecommunications field. The Section staff also analyzed a number of requests by electric utilities to offer special contract rates designed to support economic development initiatives and to assist in testing new technologies, such as thermal storage.

Among other significant activities, the Section staff prepared a final report and testimony on pricing of metropolitan area telephone services, worked cooperatively with the state Energy Office and Arizona Public Service Company to implement a residential electricity conservation research project, submitted rate design testimony in several electricity, natural gas, and telecommunications rate proceedings, and investigated regulatory issues associated with the growing amount of competition in provision of energy and telecommunications services.

A major share of the Section's efforts in the past year was devoted to analyzing the long-range resource plans filed by Arizona's four largest electric utilities in compliance with the Commission's recently approved resource planning rules. The Section staff also began preparing a comprehensive report on electric utility resource planning based on its own independent analysis of future electricity demands and least cost supply options.

The Economics and Research Section continues to develop and expand its analytic and computer modeling capabilities in support of the Commission's policy research needs.

ENGINEERING SECTION

The Engineering Section conducts technical reviews of all regulated utilities to assure compliance with accepted service, safety, maintenance, performance and regulatory standards.

This section monitors and conducts on-site investigations of 369 privately-owned water companies, thirty-seven sewer companies, sixteen electric utilities, twenty-six telecommunications companies, and four irrigation companies for assurance of adequate service. Gas utilities are monitored by the Pipeline Safety Group. The Engineering Section staff 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.

A major responsibility of the Engineering Section is to provide continued surveillance of the operation and maintenance of all generation plants and transmission resource within Arizona, including the Palo Verde Nuclear Generation Station, the largest nuclear power plant in the United States.

Engineering staff members assist the Commission in its role as a member of 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 has also expanded its computer capabilities. All maps depicting utility company service areas have been put on the Computer Aided Drafting System. Computer programs have been developed to track the on and off line times of all electric generation units serving Arizona.

SAFETY SECTION

The Safety Section consists of two groups: Pipeline Safety and Railroad Safety. The Section monitors pipeline and railroad safety standards and practices.

Pipeline Safety Group

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

Pipeline Safety enforces safety standards and practices applicable to the transportation of gas and hazardous liquids by pipeline. Inspections

are conducted on interstate gas transmission and hazardous liquid pipeline facilities and master meter gas operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the gas utility company meter. The Group is also involved in the enforcement of the Arizona Underground Facilities, or "Blue Stake" Law.

As a result of these responsibilities, the Group monitors the activities of two interstate natural gas transmission pipelines, three interstate hazardous liquid pipelines, thirteen major intrastate gas utility operations, three intrastate hazardous liquid pipelines, and 1,517 master meter operations.

During FY 1989-90, the Group inspected twelve major intrastate gas utility operators, three intrastate hazardous liquid pipeline operators, three intrastate hazardous liquid pipeline operations and two interstate hazardous liquid pipeline operators. The Group completed 914 comprehensive inspections and 321 specialized inspections of master meter gas distribution systems.

During the past year, the Group investigated 169 reported violations of the Underground Facilities Law, and 107 notices of violations were issued and \$12,250 in fines was collected. The Group investigated fifty-seven incidents reported by operators of pipeline facilities.

The Pipeline Safety Group provided seventeen training workshops during the past year for operators of pipeline systems and has a program where master meter operator personnel who have attended the training classes may use the Group's pipe location and leak detection equipment to assist them in the operation of their systems. During FY 1989-90, the Group also conducted seventeen Blue Stake training classes.

The Pipeline Safety Group also presented a training seminar "Federal DOT Drug Testing Requirements" to all operators of natural gas and hazardous liquid pipelines.

The Group provides natural gas safety education material to private and public schools and civic organizations to assist them in safety education efforts on a continuing basis.

A Pipeline Safety Group representative presented a paper on the effect on high temperatures on natural gas piping at the 11th Plastic Fuel Gas Pipe Symposium held in San Francisco, California during FY 1989-90.

Railroad Safety Group

The Railroad Safety Group enforces track, freight car, motive power equipment, carrier operating practices, hazardous material transportation and other railroad safety standards of the Federal Railroad Administration (FRA). The Group is also responsible for inspection and review of industrial tracks, rail-highway crossings and new railroad construction projects. In addition to its main office in Phoenix, the Group maintains an office in Tucson. This provides the Commission with a direct contact for Southern Arizona citizens and rail transportation operators and provides a means for timely response to rail incidents.

During FY 1989-90, the Group's six inspectors inspected 9,305 miles of track, 11,530 freight cars, 689 locomotives, 401 rail-highway crossings and 151 industrial track facilities. The Group also made 158 operation practices inspections and fifty-three inspections of manufacturers that ship and receive hazardous materials by rail. The Group investigated ninety-three railroad accidents and forty-one complaints received from other governmental agencies and the public. In addition, Group staff was joined by the FRA Western Regional Office in inspecting the Santa Fe and Southern Pacific Railroad track systems with a specially designed geometry inspection car.

During FY 1989-90, the Railroad Safety Group completed a research project on warning devices for rural rail-highway grade crossings where no electric power is available. Staff then designed reflective devices that will be installed at 233 rural crossings over the next three years.

Funding for the project is being provided by the Federal Highway Administration.

The Commission administers the State's share of monies dedicated to improving rail-highway crossing safety devices. Since the inception of this federal/state program in July 1977, \$18,075,729 in federal funds and \$1,359,728 in state funds have been spent or encumbered to improve safety warning devices on 303 public rail-highway crossings throughout the state. The staff, with the Federal Highway Administration and the Arizona Department of Transportation, conducts an annual review of public rail-highway crossings throughout the state and prepares a priority list of crossings to be improved with federal and state funds. The priority list is submitted to the Commission for its review with the top twenty rail-highway crossings being the goal for improvement on an annual basis. The list is then submitted to the cities, towns and/or counties to make applications for funding.

The group participates in the National Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing safety. The Commission's award winning video, "Operation Lifesaver", is widely used in the Arizona High School Driver Education and Driver Survival Programs, as well as other driver safety programs throughout the country. The Group staff participated in four public awareness gatherings during FY 1989-90.

CONSUMER SERVICES SECTION

The Consumer Services Section 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.

The following tables list a comparison of inquiries handled by the Consumer Services Section during FY 1987-88, 1988-89, and 1989-90.

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Water Companies	3,403	3,505	3,408
Electric Companies	4,002	4,122	2,878
Gas Companies	1,780	1,833	939
Communications Companies	4,689	4,830	3,290
Sewer Companies	<u>376</u>	<u>387</u>	<u>611</u>
TOTAL	14,250	14,677	11,126

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Service Inquiries	2,011	2,071	1,715
New Service Inquiries	1,111	1,144	1,056
Billing Inquiries	4,280	4,408	3,505
Deposit Inquiries	926	954	767
Other Inquiries	<u>5,922</u>	<u>6,100</u>	<u>4,083</u>
TOTAL	14,250	14,677	11,126

During this past year, the Consumer Services Section, in addition to responding to and resolving complaints and inquiries, has initiated services through the small water company assistance program, public comment meetings and mediation proceedings.

Small Water Company Assistance Program. The Small Water Company Assistance Program was developed in FY 1986-87 to assist small water companies in resolving issues that have created problems for them in the past. During FY 1989-90, the small water assistance team initiated and conducted sixteen on-site visits to small water companies targeted as possible candidates for assistance. In addition, staff worked with several small water companies that were experiencing unique and severe problems in the areas of compliance, system failure, corporate status, water service shortages, and financial ability to continue the provision of adequate service. The Utilities Division produced a quarterly newsletter which provides information on understanding the Commission rules, meeting filing requirements, and making system improvements.

During the past year, Section staff conducted a series of educational workshops throughout the state for small water company owners and operators. The monthly workshops included: discussions on the Safe Drinking Water Act; explanations of current and proposed changes in Rules and Regulations of the Arizona Corporation Commission, Arizona Department of Environmental Quality and Department of Water Resources; and information on system design.

Public Comment Meetings. In an effort to give customers an opportunity to voice their concerns and opinions on the rates or quality of service of the water company serving them, the Consumer Services Section has begun conducting Public Comment Meetings. When a water

company files for a rate review, the Consumer Services Section monitors all customer letters and comments. They investigate service problems and respond to the customers. If the comments and problems are significant, Section staff arranges for a Public Comment Meeting. These Public Comment Meetings have been beneficial in establishing a dialogue between companies and the customers. During FY 1989-90, staff conducted fifteen Public Comment Meetings.

Mediation Meetings. The Customer Services Section also conducts mediation meetings between customers and utility companies when informal complaints have not been resolved. Staff conducted nine mediation proceedings of which eight were resolved without a formal hearing.

LIBRARY

The Division maintains a library used by Commission employees and the public, containing research materials which include legal, technical and reference publications as well as federal and state documents with special emphasis on utility-related issues. In addition, the library has videotapes on telecommunications policies and practices.

During FY 1989-90, the Division continued its expansion of the library to include video tapes and audio cassettes on various computer programs and self-improvement courses.

RATE CASES

A major portion of the Utilities Division's responsibility is rate review and the determination of a reasonable return on fair value for public service corporations. A.R.S. § 40-250 requires that all public service corporations obtain Commission approval before establishing or changing any rate, fare, toll, rental charge,

classification, contract, practice, rule or regulation. With the exception of small public service corporations with gross operating revenues derived from intrastate operations of less than \$250,000, all such authority granted must be determined in a public hearing before the Commission. Regardless of the dollar amount of gross operating revenues, all rate changes require approval of the Commission in an Open Meeting. Preparation for a major rate hearing begins from the time of the utility's initial filing, and takes approximately four to six months before the hearing takes place. Work efforts between the time of filing and hearing include a review of past Commission actions, a review of documents on file with the Commission, an audit of the books and records on the utility, discussions with utility personnel and other interested parties, formulation of the staff recommendation and an analysis of the impacts of the recommendation, and preparation of written testimony and schedules. The Commission had several major proceedings during FY 1989-90 which are individually described in Appendix B.

REVENUES

The Division collects an annual assessment from public service corporations, as established by A.R.S. §§ 40-401 and 40-491.01. The total revenue collected by assessment during FY 1989-90 was as follows:

	UTILITIES REV. FUND*	RUCO**	TOTAL
Electric	\$2,693,662	\$501,497	\$3,195,159
Telephone	1,380,501	273,245	1,653,746
Gas	634,794	131,534	766,328
Water	109,997	23,166	133,163
Sewer	14,180	3,295	17,475
Cellular Tele- phone Service	<u>92,587</u>	<u>0</u>	<u>92,587</u>
TOTAL	\$4,925,721	\$932,737	\$5,858,458

NOTE: Assessment rates were computed as follows:

*0.1659 percent of intrastate total gross operation revenue

**0.0719 percent of intrastate residential gross operating revenue



Timothy M. Hogan
Chief Counsel

LEGAL DIVISION

The Legal Division was established in July of 1983 under A.R.S. § 40-106 to provide legal representation to the Corporation Commission in performance of all of its powers and duties, except for matters pertaining to the activities of the Securities Division.

The goal of the Legal Division is to provide professional, high quality and timely legal counsel and representation to the Commission in an efficient and effective manner.

Matters handled by the Legal Division fall into five categories: Commission dockets, Federal regulatory dockets, litigation, other administrative matters, and special projects. A brief description of these categories is listed below:

Commission Dockets: Utility companies throughout the state apply to the Commission for approval before undertaking certain activities such as the provision of service to the public, the modification of service territory or the implementation of rate increases. The Commission is also authorized to exercise continual review over the operations of public service corporations and to act when necessary to further the public interest.

Legal Division representation in these matters is varied and includes representing the Utilities Division position, advising the Commissioners on legal issues, advising the Consumer Services Section on both docketed and undocketed matters involving consumer complaints, and advising the Commissioners on action that may need to be taken as a result of possible violation of the rules and regulations governing certain public service corporations.

Federal Dockets: The Legal Division represents the Corporation Commission before various federal agencies that have interstate or concurrent regulatory authority in the following areas: electric, gas, nuclear energy, railroads, pipelines and telecommunications. These agencies include the Federal Communications Commission, the Federal Energy Regulatory

Commission, the Nuclear Regulatory Commission, the Department of Transportation - Office of Pipeline Safety, and the Federal Railroad Administration.

Litigation: The Legal Division represents the Commission before a variety of courts and currently has cases before municipal courts, county Superior Courts, the State Court of Appeals and the State Supreme Court, as well as before various federal district and appeals courts.

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

Special Projects: The Legal Division participates in the revision of all rules that pertain to the Corporations Division and the Utilities Division, including the Pipeline and Railroad Safety Groups. The Division also participates in numerous committees and workshops to assist the Commissioners in other significant aspects of their regulatory responsibilities.

All areas of representation by the Division increased substantially during FY 1989-90. Increases included not only the number of cases before the Commission, but also the size of these cases. At the Federal level, the Commission participated in forty-seven Federal Communications Commission cases and seventy-two Federal Energy Regulatory Commission cases. During FY 1989-90, two attorneys from the Legal Division spent six weeks in Washington, D.C. to represent the State's

interests before the Federal Energy Regulatory Commission at the Century Power Corporation wholesale rate regulation hearing. Century Power Corporation is a former subsidiary of Tucson Electric Power Company but is not regulated by the Corporation Commission since it engages only in the wholesale distribution of power. Tucson Electric Power purchases a substantial amount of power from Century for its retail customers in Arizona. This one case is expected to last for approximately two more years and is a good example of the complex Federal matters requiring substantial time, commitment and expertise of the Legal Division.

During FY 1989-90, the Division's resources were also directed to ever-escalating levels of Commission hearings. The largest case (in both time and personnel) confronting the Legal Division was and still is the rate review of Arizona Public Service Company ("APS"). APS filed application for a rate increase in January, 1990. The issues associated with this rate proceeding have been divided into five categories: excess capacity, prudence review of Palo Verde, Palo Verde outages, financial condition of the company and deferrals on Palo Verde Unit 3. Each of these issues consume a significant amount of the Division staff's time and energy. The duration of this case is anticipated to be longer than most typical rate cases due to the segregation of issues into separate hearings. The case will not be concluded until early 1991. Every member of the Legal Division is involved, either assigned to the case itself or in the capacity of an advisor to the Commissioners.

All the major cases before the Commission require an advisory staff to be assigned to act as a separate party in order to advise Commissioners and Commissioners' staff without violating the ex-parte communications rule. Thus, in each of the above instances, in addition to the need for legal staff as counsel for

Utilities Division staff, additional staff is assigned to advise the Commissioners.

Resource Planning is an important area of concern to the Commission, and impacts not only the utilities it regulates but also the future of the resources and environment of the State. Utilities Division Staff is represented by the Legal Division in all the resource planning proceedings and also is assisted in rule-making by the Legal Division. The Commission has set into action a plan to oversee and guide the use of resources in the state. During FY 1990-91, the Commission will hold its first generic resource planning hearings wherein the participating utilities and other energy providers will develop and explain ways to balance the interests of the demand to be met, reliability of service to be achieved and applicable state and federal rules regarding safety and the environment. The Legal Division's role in this process is significant and will be increasing as the awareness of the public and the utilities is awakened to the critical need for such planning. In addition the state-wide involvement, Legal Division representatives participate actively in national committees and conferences concerning resource planning. This participation will also increase in the future as demands for limited resources continue to grow.

Division resources are also allocated to committees and workshops to help the Commission on other significant aspects of their regulating responsibilities. These include assignment to a joint committee with the Department of Water Resources and the Department of Environmental Quality regarding water standards, rules and policies, while another attorney is assigned to a financial committee regarding health requirements that require special financing of small water companies. These committees hold workshops and meetings on a continual basis to resolve a variety of matters.



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 Hearing Division are located in Tucson.

Workload and achievements have continued to increase in all sections. During FY 1989-90, the Corporations section processed more than 12,000 filings, related documents and other transactions, and collected more than \$621,000 in fees. The office, as in FY 1988-89, experienced an increase in the amount of "out-of-state" filings and a noticeable increase in filings from the Phoenix Area.

Tucson Personnel assigned to the Utilities Division provided many consumer oriented services, prepared staff input to rate cases, conducted railroad safety training and inspections, and fulfilled pipeline safety requirements.

The Hearing Officer in Tucson conducted thirty hearings and issued forty-six Opinion and Orders and thirty-six Procedural Orders 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

Fiscal Resources. Through the budget process, the Arizona Corporation Commission has continued to identify fiscal resource requirements to meet its constitutional and statutory responsibilities. The Commission is funded through five sources: the State General Fund, the Utility Regulation Revolving Fund, the Arts Trust Fund, the Securities Regulatory and Enforcement Fund, and Federal Grants. The first three require legislative appropriation. The Administration, Hearing, Securities and Corporations Divisions as well as the Railroad Safety Group of the Utilities Division receive funds from the General Fund. In addition to General Funds, the Corporations Division receives a small support reimbursement from the Arts Trust Fund and the Securities Division receives a portion of the fees it collects through the Securities Regulatory and Enforcement Fund. All other requirements of the Utilities and Legal Divisions are funded through the Utility Regulation Revolving Fund,

which derives its money from assessments on public service corporations. The Federal Grants are obtained as a reimbursement to the Pipeline Safety Group within the Utilities Division for accomplishment of certain federal responsibilities.

Historically, the Commission has generated 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 FY 1988-89 (Actual), FY 1989-90 (Report Year Actual), and FY 1990-91 (Estimated).

**TABLE 1
REVENUE BY SOURCE**

	Actual 1988-89	Actual 1989-90	Estimate 1990-91
Corporation Filing Fees*	\$3,952,000	\$3,987,000	\$4,000,000
Security and Broker Fees*	4,118,200	3,656,600	5,800,000
Miscellaneous Service Charges*	101,000	106,600	125,000
Utility Assessments**	5,046,000	4,925,700	5,500,000
Pipeline Safety Revolving Fund	500	50,000	50,000
Fines and Forfeitures	168,000	205,300	200,000
Securities Regulatory & Enforcement Fund***	0	26,900	825,000
Arts Trust Fund****	0	730,300	750,000
Federal Grant	153,400	160,300	193,300
TOTAL	\$13,639,100	\$13,848,700	\$17,443,300

**TABLE 2
EXPENDITURES BY DIVISION**

	Actual 1988-89	Actual 1989-90	Estimate 1990-91
Administration & Hearing Divisions	\$1,788,400	\$1,793,000	\$1,814,100
Corporations Division	1,011,400	1,010,500	1,087,100
Securities Division	1,430,200	1,509,500	2,494,200
Railroad Safety Section (Utilities Division)	413,600	417,000	347,100
Utilities Division	4,293,900	4,369,700	4,987,100
Legal Division	881,700	813,900	997,200
TOTAL	\$9,819,200	\$9,913,600	\$11,706,800

**TABLE 3
EXPENDITURES BY FUND SOURCE**

	<u>Actual 1988-89</u>	<u>Actual 1989-90</u>	<u>Estimate 1990-91</u>
General Fund	\$4,643,600	\$4,705,000	\$4,866,700
Arts Trust Fund	0	25,000	26,800
Securities Regulatory & Enforcement Fund	0	0	850,000
Utility Regulation Revolving Fund	5,022,200	5,023,300	5,770,000
Federal Grant	<u>153,400</u>	<u>160,300</u>	<u>193,300</u>
TOTAL	\$9,819,200	\$9,913,600	\$11,706,800

* Deposited in the State General Fund

** Deposited in the Revolving Fund for Utilities and Legal Divisions

*** Deposited in the Securities Regulatory and Enforcement Revolving Fund

**** Deposited in the Arts Trust Fund

NOTE: General Fund Revenue appropriated by the Legislature for FY 1989-90 was reduced \$49,600 based on an Executive Branch request in the Fall of 1989. Therefore, the actual amount expended during FY 1988-89 was necessarily less than the estimate shown in the Corporation Commission's 77th Annual Report.



APPENDIX B

Contel of the West and Contel of California (Contel)

Docket Nos. U-1514-88-250 and U-1846-88-249, Rate Reviews

Decision Nos. 56657 and 56658, Dated October 10, 1909

The Commission concluded its rate review of the two Contel subsidiaries which provide local telephone service in Arizona. The review was initiated as part of the Commission's consideration of technological, institutional, and federal regulatory policy changes in the telephone industry that are affecting rural local exchange companies. These cases also provided the Commission with an opportunity to begin replacing the antiquated system of toll revenue pooling with company specific access charges, and to test the implementation of its regulatory policy designed to support universal telephone service in rural areas.

Contel requested combined increases in annual revenues of nearly \$3.7 million for the two service areas. The Commission approved gross revenue increases of \$0.7 million. However, to moderate increases in local service rates that would be required to accomplish the shift from toll pooling to access charges, the Commission also determined that Contel-West would be eligible to receive approximately \$0.8 million from the Arizona Universal Service Fund (AUSF). When it later became apparent that implementation of the AUSF program would be delayed, the Commission approved a temporary revised rate design that assigned increased rates to long distance carriers for access to the Contel local service network.

Resource Planning

Docket No. U-0000-90-088

Under the Commission's rules, electric utilities file long range resource plans every three years. The first such plans were filed in December 1989 or early 1990 by Arizona Electric Power Cooperative, Arizona Public Service Company, and Tucson Electric Power Company. Salt River

Project voluntarily submitted a long range plan as well. Resource planning is intended to minimize the total cost of meeting the demand for electric energy services.

The Commission will conduct workshops on resource planning during the fall of 1990 and will evaluate electric utilities' long range plans in a hearing in late 1990. In preparation for the workshops and hearing, Commission staff has proposed decision criteria consistent with minimizing the total cost of meeting the demand for electric energy services, prepared its own demand forecasts, evaluated the potential for alternative technologies for generating power, assessed alternative conservation measures and programs, and prepared recommendations for Commission action. Among the Commission staff's recommendations are additional conservation and wider application of solar power. Conservation and solar power also work to improve environmental quality.

Tucson Electric Power Company

Docket No. U-1933-88-090

Decision No. 56659, Dated October 24, 1989

On November 10, 1988, Tucson Electric Power Company (TEP) filed an application for an increase in rates. The rate request was combined with a review of TEP's fuel and purchased power adjustor clause. Hearings on the combined case began on April 17th and ended on May 19, 1989.

One of the main issues in the case was the matter of TEP's relationship with Alamito Company and TEP's subsidiary companies, especially those involved in the supply of fuel or services to TEP. In a related matter, there was also concern expressed about the need for long-term purchased power contracts between TEP and Alamito. Another major point of discussion was the treatment of the proceeds from a transaction between TEP and the Modesto, Santa Clara & Redding Public Power Agency. The need for the continuation of the purchased power and fuel adjustor was also determined to no longer exist, and therefore, was eliminated. In

Decision No. 56659, The Commission found that an increase in operating revenues of \$43,235,776 was fair and reasonable. This revenue increase was based on a return on fair value rate base of 7.40 percent, which allowed for a return on equity of 12.50 percent. In terms of major rate design changes, the decision eliminated the residential winter declining rates from TEP's tariffs.

Additionally, the decision required TEP to file a plan for implementing a residential time-of-day pricing experiment and a plan for lifeline rates and conservation programs. Finally, the decision required that TEP hire an outside, independent reputable firm at a reasonable cost to conduct a management audit and that the audit report, as well as a report of resulting changes, be filed with the next rate case.



CORPORATION COMMISSIONERS SINCE STATEHOOD

A. W. Cole	Democrat	1912-1917
W. P. Geary	Democrat	1912-1915
F. A. Jones	Democrat	1912-1919
Amos A. Betts	Democrat	1917-1933/1938-1945
David F. Johnson	Democrat	1919-1924
Loren Vaughn	Democrat	1921-1932
W. D. Claypool	Democrat	1925-1930
Charles R. Howe	Democrat	1931-1936
Wilson T. Wright	Democrat	1933-1953
John Cumnard	Democrat	1933-1934
W. M. Cox	Democrat	1935-1940
William Peterson	Democrat	1941-1946
William 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