

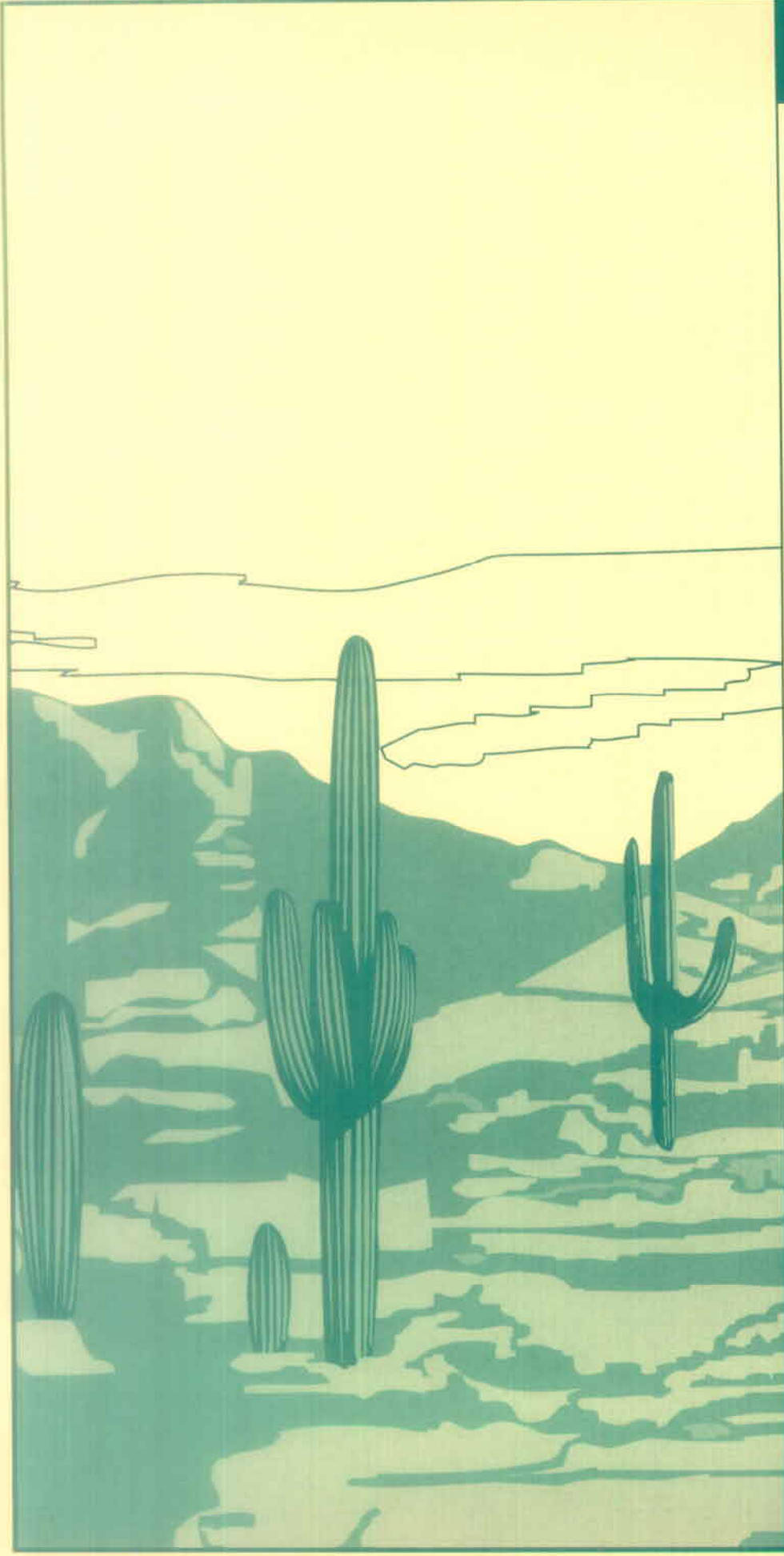
1993 - 1994

82nd

ANNUAL REPORT



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
Jerry Rudibaugh, Hearing
Joan Adams Moore, Corporations
Dee Riddell Harris, Securities
Gary M. Yaquinto, Utilities
Paul Bullis, Legal

Main Office
1200 West Washington
Phoenix, Arizona 85007

Adjunct Office
1300 West Washington
Phoenix, Arizona 85007

Southern Arizona Office
400 West Congress Street
Tucson, Arizona 85701

Services:

Commissioners
Executive Secretary
Administration
Hearing
Utilities
Legal

Services:

Corporations
Securities

Services:

Corporations
Hearing
Utilities



ARIZONA CORPORATION COMMISSION

82nd Annual Report
1993-94



ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007



To exercise exclusive state regulatory authority over public service corporations (public utilities) in the public interest; to grant corporate status and maintain public records; to ensure the integrity of the securities marketplace; and to foster the safe operations of railroads and gas pipelines in Arizona.

TABLE OF CONTENTS

FOREWORD.....	i
THE COMMISSIONERS	1
THE EXECUTIVE SECRETARY	2
ADMINISTRATION DIVISION.....	3
HEARING DIVISION.....	7
CORPORATIONS DIVISION.....	8
SECURITIES DIVISION.....	10
UTILITIES DIVISION.....	12
LEGAL DIVISION.....	19
SOUTHERN ARIZONA OFFICE	22

APPENDIX

A. FINANCIAL DATA SECTION.....	24
B. MAJOR RATE CASES.....	26



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, 1993 - June 30, 1994. As required by Arizona Revised Statutes, this report was transmitted to the Governor of the State of Arizona, the President of the Senate and the Speaker of the House of Representatives.

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



MARCIA WEEKS

Chairman

Marcia Weeks is a resident of Phoenix and was first 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 1997.



RENZ D. JENNINGS

Chairman

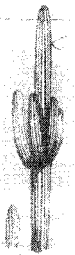
Renz Jennings, an Arizona native, was first elected to the Commission in 1985. Commissioner Jennings has a J.D. from the ASU College of Law and served three terms in the Arizona House of Representatives prior to his election to the Commission. He has been elected to a third term to run through January 1999.



DALE H. MORGAN

Chairman

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.





JAMES MATTHEWS

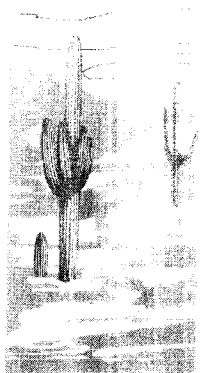
James Matthews has served as Executive Secretary since April 1985. Prior to that, he served as Deputy Director of the Arizona Health Care Cost Containment System and as Legislative Liaison for Governor Bruce Babbitt, as energy policy program director for the National Conference of State Legislators, and as a staff member of the Arizona House of Representatives. Mr. Matthews holds a B.A. degree from the University of New Mexico and a M.P.A. from Arizona State University. He is a graduate of the Harvard University Program for Senior Executives in State and Local Government.

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 has served as Chairman of the National Association of Regulatory Utility Commissioner's Subcommittee on Executive Directors, the Arizona Disease Control Research Commission and Board of Management of the Phoenix Downtown YMCA. He has written on topics relating to government agency management and public health policy. He has co-authored A Manual on Commission Organization and Operations published by the National Regulatory Institute.





Commissioner
 [Name obscured]

Mission — to provide the executive leadership and decision-making authority for the timely resolution of matters coming before the Commission; to plan, coordinate and direct the administrative and fiscal activities necessary to support the Commissioners and all the divisions of the Commission.

The Administration Division is composed of the three elected Commissioners and their staffs, the Executive Secretary's Office and the administrative functions which provide the fiscal and administrative services necessary to support all divisions of the Corporation Commission. The Division Director oversees the administrative and fiscal functions and also serves as the Deputy Executive Secretary, performing the duties of the Executive Secretary during the incumbent's temporary absences.

The Executive Secretary's staff performs many administrative functions in conjunction with the Division. These include: 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 Arizona Legislature enacts new laws every year which impact the Commission and the people the agency serves. Laws which affect regulated entities, consumers of regulated services, and corporate Arizona must be monitored and, in some cases, implemented by the Commission. Because of the Commission's broad ranging authority, the Administration Division coordinates all of the Commission's legislative activities in conjunction with each Division. Additionally, the agency's budget is set by the legislature each year. The 1994 legislative session produced the following new laws of interest to the Commission.

LEGISLATION RELATING TO UTILITIES

Rate Case Time Clock. H 2099. Chapter 153.

This legislation seeks to allow automatic utility rate increases subject to refund if the amount of increase is later determined to be excessive. It endeavors to establish new classifications of utilities and mandates the Commission to issue final decisions on rate increase applications within 270 days for com-

panies with annual operating revenues of \$1 million or more ("Class 1 utility") and within 180 days for companies with annual operating revenues of less than \$1 million ("Class 2 utility"). It also requires the Commission to adopt simplified filing procedures for utilities with annual operating revenues of \$250,000 or less.

Rail Transportation Study. H 2025. Chapter 4.

Extends the life of the 1992 study committee regarding the feasibility of a passenger rail system in Arizona until 1996.

RUCO Barred from CO-OPS. H 2327. Chapter 73.

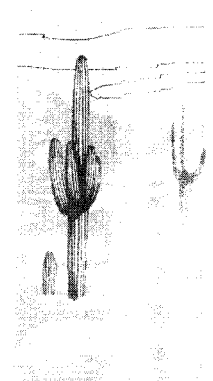
Restricts the authority of the Residential Utility Consumer Office by saying that RUCO cannot participate in rate matters involving member-owned utility cooperatives. The bill also exempts cooperatives from the regulatory assessment levied on utilities to fund RUCO.

CAP; Water Protection Plan. H 2590. Chapter 278.

Creates a tax on public service corporations receiving CAP water. Also creates a 4-cent property tax to be levied to raise money for Central Arizona Water Conservation District counties in order to store water. Expands the powers of the CAWCD. Creates an "Arizona Water Protection Fund" run by a huge commission. Appropriates over \$10 million and establishes legislative oversight of the expenditures of monies.

Telecommunications Property Tax Relief. S 1340. Chapter 271.

Retroactive property tax relief for telecommunications companies on property not devoted to provision of local telephone service. Property taxes will be governed by a different formula: real estate is to be valued at market



value, personal property on a unitary basis at original book cost minus depreciation, computed according to the Department of Revenue's personal property manual tables in effect as of January 1, 1993.

Omnibus Water Amendments. S 1371. Chapter 202.

Lengthy amendments to the state water code including setting groundwater allowances for municipal providers. Requires the Department of Water Resources to conduct studies. Says that it is the water provider, not the service area, that must get DWR's assured water supply designation.

NEW LAWS RELATING TO SECURITIES

Investment Management Act. H 2271. Chapter 311

Expands the duties of the Securities Division to include the oversight of the provision of investment advice, and the registration of investment companies. It restructures mutual fund registration and fees. The bill provides the Commission the rulemaking authority to create some exemptions for public offerings, in order to promote easier access to capital markets. It gives the Commission the rulemaking authority to permit "testing the waters," a form of market research to determine specific interest in a particular project or company before substantial dollars are expended to prepare offerings. Also, it provides the Commission the authority to cooperate with other states in the registration of small public offerings in multiple jurisdictions in order to reduce the time and costs associated with individual state registrations.

NEW LAWS RELATING TO CORPORATIONS

Limited Liability Companies. S 1012. Chapter 196.

Amends the LLC statutes to provide for more disclosure. Says LLC articles must disclose the names of all owners of 20% or more interest. LLC articles must be amended when management or 20% or more ownership changes. Requires an affidavit of publication of articles to be filed. Requires newspaper publication of applications and renewals. Eliminates the use of deceptively similar names. Gives the Commission the authority to dissolve an LLC for violating the law. The bill also creates a

new entity, the Limited Liability Partnership, under the supervision of the Secretary of State.

Business Corporation Act. H 2124. Chapter 223.

Rewrites the first 12 chapters of Title 10. Among other things, the Act eliminates the traditional concepts of "par value," "stated capital," "earned surplus," "capital surplus," and "treasury shares" and replaces them with modern financial tests. Now the test for a corporation's solvency is whether the corporation would still be solvent after the distribution. Also, the assets will have to exceed the sum of liabilities and liquidation preferences. (Note: because of the requirements in the Constitution, banks will still have to worry about par value.) The Act updates the rules regarding conflict of interest. The Act preserves the ability for shareholders to bring suits. The Act establishes standards for mandatory and permissive indemnification, as well as mechanisms to process indemnification claims in accordance with the new conflict of interest provisions. The Act also adopts a rebuttable presumption in favor of mandatory indemnification of outside directors. The Model Act requires that shareholders who are potential dissenters from major transactions identify themselves in advance. It requires the corporation to pay the shares' fair value to the dissenter promptly on completion of the transaction and requires that a negotiated procedure for determining fair value be used. The Act permits the transfer of the domicile of foreign corporations to Arizona. The Act gives the Commission explicit rulemaking authority. It also provides the Commission with the authority to deny a corporate name if the proposed name is so identical to an existing name that in the judgment of the Commission the corporate name is likely to mislead the public. Also, it says that merely changing the order in which words appear in a proposed name is not acceptable. Because of the extensive changes in the Act, the new law does not become effective until January 1, 1996.

Business Corporation Act Fees. S 1245. Chapter 199.

This Act lists the various fees the Corporations Division is authorized to charge. All of the existing fees remain the same, but new requirements of the Business Corporation Act have new fees associated with them. While the bill required a two-thirds vote because of the new fees, the language of the bill states "Beginning January 1, 1996" in order to coin-

rate with the effective date of the Business Corporation Act.

LAWS RELATING TO ADMINISTRATION

State Retiree Health Insurance. H 2197. Chapter 35.

Establishes an open enrollment period for state retirees who initially rejected, but now want to participate in, health and accident insurance coverage. Requires that former elected officials, employees and dependents must be grouped with active state officers and employees in order to obtain coverage at "favorable rates." If the spouse pays the premium, the Administration Department is authorized to continue coverage under group rates for the spouse and dependents of a deceased employee.

State Hearings Cost Award. H 2234. Chapter 38.

In demonstrated cases of harassment where a case was not justified, a prevailing party whom action was brought against by a state agency must be granted the award of their court and fees by the hearing officer. If the case is dismissed because the law changed since the case was brought, the award can be reduced or denied. If the agency refuses to pay the award, the Administration Department has to pay the money and if it is later determined that the agency did the money when it refused, the legislature is required to reduce its operating budget by the amount of the award and give the money to the Administration Department.

State Employee Travel. S 1033. Chapter 110.

Previously, employee travel orders were assigned by the Governor, or if he delegated that authority, by the Administration Department Director. Now, agency heads, or someone they delegate, have the authority. The Administration Department is directed to adopt policies and guidelines for out-of-state travel orders, and to perform "compliance reviews" on the orders and require that all out of state travel orders be available for public inspection.

Administrative Procedures. S 1236. Chapter 30.

Changes in the laws relating to the proposal and adoption of state agency regulations. Every state agency with over 100

employees must publish the names of employees who act as information providers/helpers to the regulated public. When an agency proposes a new rule, it must also include a "preamble" which sets out the rule's purpose, authority and impact on business. The state administrative register must now carry the full text of proposed rules (previously, only summaries were published.) Agencies have the option of establishing advisory committees to review proposed rule changes. The advisory committees can meet with anyone interested in proposed rules on an informal basis. Creates a study committee to look at further changes and appropriates \$465,600. The law has a delayed effective date of December 31, 1994, except for some portions which do not apply to the Commission.

Budget Control by Legislature. S 1253. Chapter 366.

JLBC analysts are required to recommend elimination or consolidation of at least one-tenth of all funds each fiscal year. They are further required to list, for conversion from non-appropriated status to appropriated status, at least five percent of all non-appropriated funds. The analysts themselves, instead of the JLBC, are made responsible for calculating the amount of appropriations subject to spending limits.

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 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

derived 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. The number of meetings of these various types are shown in the Hearing Division's section of this Annual Report.

Civic Activities. Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 1993-94, the Commissioners and employees:

- Contributed \$7,873 to the State Employees Charitable Campaign which supports United Way Agencies, National Health Agencies, International Service Agencies and local non-affiliated agencies.

- Donated \$1,156 to the American Cancer Society in support of Commission staff who participated in the Annual "Climb the Mountain, Conquer Cancer" event.

- Donated twenty pints of blood in specially arranged blood drives held at the Commission's facilities.

- Collected \$858 through baked goods and book sales to help brighten the Christmas of a needy family.

- 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 is also the primary action office for plans and projects of benefit to Commission employees. During FY 1993-94:

- A comprehensive Data Automation Plan for Fiscal Years 1994, 1995 and 1996 was developed and submitted to the Department of Administration. The plan highlighted the significance of the 1994 acquisition of a state-of-the-art, UNIX based, Sequent minicomputer to host the Corporation Division's incorporating system to provide nation-wide "Public Access" to corporate records filed with the Commission. The plan also stressed the Corporation Commission's on-going structured

approach to achieving a high level of efficiency through automated information management systems. The Commission's Affirmative Action plan was updated. The plan transmitted to the Governor's Office of Affirmative Action, demonstrated that the Commission met overall parity goals. However, slight under-utilization of some protected groups in certain occupational categories was determined. Hiring goals and objectives were established to correct these imbalances.

The Commission continued to fund a "Tuition Assistance" program for its employees. The objectives of the program include: improve job capability, performance and morale; encourage personal growth and development; and provide a source of qualified personnel for advancement as vacancies occur.

BUSINESS OFFICE

The Business Office is responsible for providing all accounting, payroll, purchasing, and personnel support for the Commission as well as budget preparation. 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 1993-94, the Business Office received and processed \$22,728,600 in revenue to the State Treasurer, of which \$13,530,300 was deposited in the state's General Fund. The General Fund receipts of the Corporation Commission were the fourth largest among all state agencies. In addition to revenue deposits, the business office issued 349 purchase orders; processed 520 travel claims; received and entered into inventory 560 items; and serviced 265 employees through personnel actions and payroll transactions.



Richard L. Bragg
Presiding Officer

Mission To conduct hearings, analyze the evidence and draft recommended decisions for the Commissioner's consideration and approval.

The Hearing Division exercises the Commission's 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. 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. Rate applications are processed under the procedural schedule established by the Hearing Officer in order to ensure that proposed Opinions and Orders are issued in a timely manner within the framework of the Commission's "timetick" rules.

During FY 1993-94, the six Hearing Officers in the Division conducted 112 public hearings, encompassing a total of 208 days. A summary of hearings is shown below.

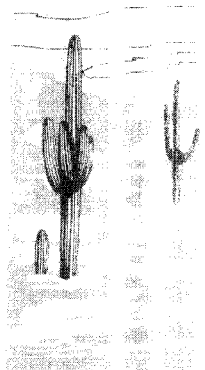
**PUBLIC HEARINGS CONDUCTED FOR
FISCAL YEAR 1993-94**

TYPE OF HEARING	NO. OF HEARINGS
Rate Cases	14
Transfer/Sales	14
Certificates of Convenience and Necessity	16
Orders to Show Cause and Complaints	12
Financing	2
Rates (new and amended)	1
Adjudications	1

TYPE OF HEARING	NO. OF HEARINGS
Deletions	1
Securities Division	1
Railroad/Safety Group	10
Tariff	2
Pre-Hearing Conferences	10
Public Comments ¹	8
Miscellaneous (oral arguments, motions to compel, etc)	10
TOTAL	112

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 1993-94, the Hearing Division prepared a total of 146 recommended orders, 101 for cases involving a hearing and 45 for non-hearing matters, mainly expedited rate applications for small water companies.

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 1993-94, the Hearing Division issued 281 such orders.





Joan Adams Moore
Director

Mission To grant corporate status to companies organizing under the laws of Arizona; to issue licenses to foreign corporations and limited liability companies who propose doing business in this state; and to maintain their files for benefit of public record and service of process.

The Corporations Division approves for filing all articles of incorporation for Arizona businesses, all articles of organization for limited liability companies; grants authority to foreign corporations to transact business in this state; propounds interrogatories when necessary to determine a company's lawful purpose; and reviews the corporate charters of those corporations which choose to not comply with Arizona law. The Division collects from every corporation an annual report which reflects its current status, business, and financial condition; maintains this information in a format conducive to public access; responds to public questions concerning Arizona businesses and corporation law; and responds to the needs of the business sector by disseminating whatever information is mission-critical to them in the most expedient and cost-effective manner possible.

Any significant changes to Articles of Incorporation or Articles of Organization for Limited Liability Companies in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed with the Division. All filings are public record and available for inspection. Copies of documents may be secured for a nominal fee.

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

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

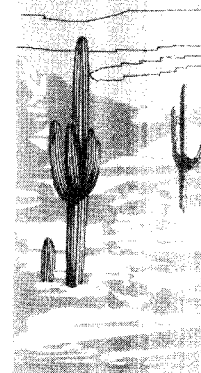
CORPORATE FILINGS SECTION

The Corporate Filings Section approves and processes all filings directly related to Articles of Incorporation and Organization. The Section determines availability of Corporate/LLC names, processes applications filed by foreign corporations seeking authority to transact business in Arizona, and certifies copies of any and all corporate and limited liability company documents on file for introduction into court and private business transactions. As of June 30, 1994, there was a total of 132,004 corporations and limited liability companies transacting business in the State of Arizona.

This Section works in conjunction with the Departments of Real Estate, Insurance, Banking and the Registrar of Contractors to ensure consistency between agencies relative to filing requirements. It also works closely with the office of the Secretary of State. Laws pertaining to corporate and limited liability company names are similar to those governing trade names, which are administered by the Secretary of State.

The number of documents processed by the Corporate Filings Section during FY 1993-94 were as follows:

Domestic Articles of Incorporation	13,053
Foreign Applications for Authority	2,767
Amendments	2,025
Certificates of Good Standing	7,122
Certification of Orders	8,488
Domestic and Foreign Mergers	822
Domestic Articles of Organization	2,974
Foreign Applications for Registration	67



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.

This Commission is authorized by A.R.S. §§10-295 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 1993-94, this Section processed the following:

Annual Reports	105,494
Delinquency Notices	30,129
Revocations	12,643

RECORDS SECTION

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

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 1993-94 exceeded 950,000. 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 and limited liability companies whenever either entity does not maintain a statutory agent or when the agent cannot

be located. In these instances, services of process directed to the Commission are accepted and processed by the Records Section.

EXPEDITING SECTION

The Expediting Section performs essentially the same function as the Corporate Filings Section, except that all business documents are examined and filed in a priority same day service at the request of the customer. This has proven to be a well used service and averaged 1500 filings per month at the end of FY 1993-94.

STARPAS OPERATION

The State of Arizona Public Access System (STARPAS) project was mandated in FY 1992-93 by A.R.S. §10-129.01 & 10-1085.01. STARPAS is intended to provide on-line public access to corporate records on file with the Commission. During the first five months of FY 1993-94, the Corporations Division data staff, working with the Department of Administration's Data Center staff, migrated all data and applications associated with the incorporating system from the Data Center to the Division's Sequent minicomputer. This was a complex process, requiring testing and parallel processing to ensure system integrity. All efforts were successful and on December 1, 1993, the Corporations Division disconnected entirely from the Data Center. On-line public access had become a reality. As of June 30, 1994, STARPAS supported the incorporating system, the Secretary of State's Office, provided office automation and granted on-line access to more than 50 customers and over 30 government agencies.



Dee Riddell Harris
Director

Mission - To ensure the integrity of the securities marketplace through investigative actions as well as the registration and/or oversight of securities, securities dealers and brokers, investment advisers and their representatives; to enhance legitimate capital formation; and to minimize the unnecessary burden and expense of regulatory compliance by legitimate business.

The Division reviews prospective offerings of securities to ascertain that full and fair disclosure is made to potential securities investors and that the terms of offerings are not inherently fraudulent. Securities dealers and salespersons are required to register with the Division. The Division reviews these applications and monitors the conduct of investment advisers, dealers and salespersons; investigates possible violations; where the evidence warrants, brings administrative, civil or criminal enforcement actions, and conducts programs to educate investors to protect themselves. The Division consists of five sections: Corporation Finance, Trading and Markets, Law and Policy, Enforcement, and Financial Analysis.

TRADING & MARKETS SECTION

This Section is responsible for the administration of the registration and licensing provisions of the Securities Act and the Investment Management Act. Staff conducts on-site examinations of dealers and investment advisers to ensure compliance with these Acts. The Corporation Commission is authorized to deny, suspend, or revoke a registration or license, to assess fines and to order restitution. During FY 1993-94, the section processed 1,168 dealer and 57,692 agent registrations.

The Division's Trading and Markets section was a leader in the national investigation of Prudential Securities and was a member of the five state task force which negotiated an unprecedented settlement creating an unlimited restitution fund for investors who were misled when they purchased their partnerships in the 1980's. As of June 30, 1994, over 5,000 Arizona residents had received approximately 16 million dollars in restitution.

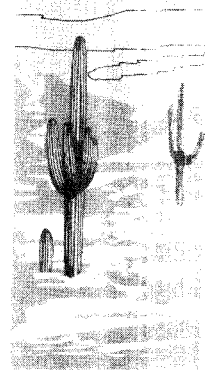
An additional responsibility of the section is the regulation of the Arizona Stock Exchange (AZX). The AZX commenced operations in Phoenix on March 31, 1992. The AZX is an all-electronic call market which had approximately 7,361 equity securities (with approximately 49 Arizona based companies and a large number of additional companies with a strong Arizona presence) available for trading as of June 30, 1994. The AZX was averaging several hundred thousand traded shares daily as the Fiscal Year closed.

CORPORATION FINANCE SECTION

Corporation Finance is involved in the review of applications for registration of securities under the Arizona Securities Act. The section also reviews applications for exemption from the registration provisions of the Act. The Section participates in the early stages of the capital formation process through its pre-filing conferences with issuers. The Division makes its staff available to issuers through pre-filing conferences in which a potential issuer meets with members of the staff to discuss applications to register securities. The time a filing spends in the review process is significantly reduced by this program. The staff participated in 9 pre-filing conferences last year.

Small corporate issuers are eligible to register securities under the Uniform Limited Offering Registration (ULOR) program. This program has been designed to allow small companies to have affordable access to the public capital markets. During FY 1993-94, the Division registered 5 offerings under this program.

The Division processed 6,709 applications for securities registration, 3,013 filings for various exemptions from registration and 1,501 name change requests.



ENFORCEMENT SECTION

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

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

During FY 1993-94, the Division initiated 54 investigations and had a total of 115 cases under investigation. It instituted 18 administrative proceedings and transmitted evidence to the Attorney General which resulted in 4 civil cases involving 9 defendants and 3 criminal cases involving 4 defendants. The Securities Division makes a substantial commitment to its cases once litigation is commenced. Its investigators and certified public accountants become essential factors in the litigation in terms of marshaling witnesses and providing expert testimony. Because of their familiarity with the facts in the case they have investigated, the Division attorneys are appointed Special Assistant Attorneys General to assist during litigation. A total of 197 subpoenas were issued and 79 examinations under oath were taken during the year.

FINANCIAL ANALYSIS SECTION

The Financial Analysis Section is staffed by certified public accountants who provide accounting and financial analysis support to the other four 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.

LAW & POLICY SECTION

The responsibilities of the Law & Policy Section include: the No-Action (interpretive) letter program, rulemaking, supervision of the duty officers and drafting legislation. Additionally, the Law & Policy staff work with the business and financial communities on capital formation issues and SEC and NASAA Small Business Conferences.

Administrative Matters. The Legislature considered and passed House Bill 2271 during the 1994 Legislature Session. The Bill, signed into law by the Governor, established the Investment Management Act regulating investment advisers and their representatives. The licensing provisions of the law become effective in FY 1995 but will require significant and immediate planning and preparation by the Division. It is anticipated that over 400 investment advisers and 1200 investment adviser representatives will be subject to the licensing requirements of the new law. In addition, the bill establishes inspection and investigation authority and the ability for the Commission to levy appropriate sanctions as it deems necessary. The Division's investor education program consists of a year-round speakers bureau for civic and consumer groups, publications and distribution of investor education brochures, bulletins and videos, and on-going dissemination of investor information to local regional and national media to reach our primary audience, the individual investor. These efforts strive to equip Arizonans to make informed investment decisions and to protect themselves from falling prey to investment scams perpetuated by dishonest con men. In addition, the Division's public reference room is open to the general public and provides extensive information on public companies which have Arizona securities holders. Available to investors, brokers, securities analysts, financial journalists, students and any other members of the public, the public reference room is located at 1300 West Washington, Third Floor and is the only source of information about certain small Arizona-based companies.



Gary M. Yaquinto
Director

Mission: To conduct research and analysis and provide recommendations to the elected commissioners on all matters relating to the regulation of public service corporations (public utilities) under the state constitution and statutes to ensure their actions are consistent with the public interest.

The Utilities Division makes specific recommendations to the Commissioners to assist them in reaching decisions regarding public utility rates, financial condition and quality of service of regulated utilities. The Division conducts research, presents evidence in hearings and contracts with nationally recognized rate analysts and expert witnesses in carrying out these responsibilities. The staff also monitors compliance with all Commission decisions, conducts public workshops and other public proceedings on various regulatory topics, and initiates actions pertaining to utility practices and rates when necessary in the furtherance of public interest. In addition, Division staff inspects gas pipelines for safety, operates a railroad safety program and maintains the official documents of proceedings before the Commission.

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

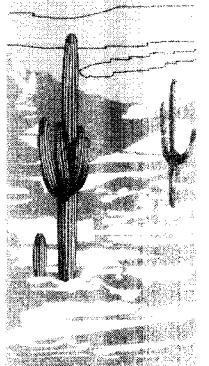
A major portion of the Utilities Division's responsibility is rate review and the determination of a reasonable return on fair value for public service corporations. A.R.S. Section 40-250 requires that all public service corporations obtain Commission approval before establishing or changing any rate, 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. Regardless of the dollar amount of gross operating revenues, all rate changes require approval of the Commission in an Open

Meeting. Staff preparation for a major rate hearing begins at the time of the utility's initial filing, and takes approximately four to six months before the hearing takes place. Work efforts between the time of filing and hearing include a review of past Commission actions, a review of documents on file with the Commission, an audit of the books and records of the utility, discussions with utility personnel and other interested parties, formulation of the staff recommendation and an analysis of the impacts of the recommendation, and preparation of written testimony and schedules. Division staff participated in several major proceedings during FY 1993-94 which are individually described in Appendix B.

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 facilities are inspected for proper construction and design, and also for ratemaking purposes. Engineers investigate electrical incidents. Railroad Safety and Pipeline Safety personnel also investigate rail and pipeline incidents and emergency situations. Utilities Division Staff further ensure that utilities are in compliance with Arizona law and Commission directives.



The Utilities Division consists of six sections which fulfill the staff's responsibilities: Accounting and Rates, Economics and Research, Engineering, Safety, Consumer Services, and Administrative Services.

The Division oversees the following number of utilities:

Investor-owned electric utilities	5
REA electric cooperatives	11
Gas utilities	9
Telecommunications companies	52
Water utility companies	352
Sewer companies	33
Irrigation companies	<u>1</u>
TOTAL 463	

ACCOUNTING AND RATES SECTION

The Accounting and Rates Section provides independent analyses of the financial, rate and other requests filed by utilities for Commission approval. These requests include proposals for rate changes and new tariff provisions, requests for financing authority, fuel and purchased power adjustor revisions, 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, customers, utility 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 provides 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 con-

sideration in the areas of accounting, finance, and ratemaking which impact on water, wastewater, electric, gas and telecommunications utilities.

A large portion of the Section's resources during FY 1993-94 were devoted to water industry matters. For instance, Section staff participated in several small water company workshops held throughout the state of Arizona. On the other hand, 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 expert testimony and assistance in analyzing Southwest Gas Corporation, Citizens Utilities Company - Arizona Gas Division, Arizona Public Service Company, and U S WEST Communications, Inc.

ECONOMICS AND RESEARCH SECTION

The Economics and Research Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities and rural electric cooperatives. The staff uses a variety of computer models and quantitative techniques to assist in the evaluations. Recommendations are presented to the Commission through staff reports and sworn testimony.

Staff members testified before the Commission in December 1993 regarding electric utility integrated resource planning. The staff analyzes identified renewable resource technologies and additional demand side management programs, monitoring, and evaluation as areas needing further attention. The staff also conducted independent load forecasts for electric utilities and compared its results with the utility forecasts. The Commission's order on integrated resource planning requires the staff to conduct several workshops and cooperative efforts regarding energy conservation and renewable generating technologies.

Demand side management activities carried out by electric and gas utilities increased over the year and the Economics and Research Section is responsible for reviewing program proposals and for monitoring ongoing conservation programs. Major conservation programs include efficient lighting, efficient motors, efficient chillers,

made trees energy efficient new homes, and education programs.

and forward competition in the provision of telecommunications and electric services is a major issue before the Commission. Economics and Research Section staff members participated in several telecommunications workshops conducted by the Utilities Division and prepared reviews of issues surrounding competition in local service. In addition, staff members prepared for dealing with competition in the retail distribution of electricity, including planning for a series of workshops to identify the issues associated with retail competition.

During FY 1993-94, the staff made presentations before the Western Regional Science Association, the Southwest Public Power and Utilities Symposium, the U.S. Department of Energy Institutional Conservation Program National Conference, the Arizona Regeneration Association, the National Association of Regulatory Utility Commissioners, Affordable Comfort, and the Arizona Photovoltaics for Utilities Cooperative. Staff members had articles on energy issues and other matters accepted for publication in the Journal of Economic Issues, Home Energy, the Electricity Journal, and the Journal of the American Planning Association.

Staff members presented testimony on natural gas demand side management and related issues regarding Citizens Utilities Company and Southwestern Gas Corporation. In addition, the staff reviewed the advantages and disadvantages of integrated resource planning for gas utilities.

Economics and Research Section staff members participated in the negotiation of lower rates for Arizona Public Service Company and testified before the Commission on demand side management and renewable generating resources for Arizona Public Service Company. The Economics and Research Section was also responsible for testimony on extended area service for U.S. West in U.S. West's rate case.

The Commission must review public service corporations' offers of new services and changes in rates, terms, and conditions of existing services. The Economics and Research Section evaluated approximately seventy such tariff filings during FY 1993-94 and made formal recommendations to the Commission in each case. The majority of these tariff filings concerned introduction of new telecommunications ser-

vices and changes to existing telecommunications services. The Section also reviewed special contracts between electric utilities and industrial customers. Finally, Section staff completed analyses used to support the recommendations on the sale of U.S. West rural properties to other telephone companies.

ENGINEERING SECTION

The Engineering Section conducts technical reviews of all Commission regulated utilities (except gas, which is done by the Pipeline Safety Group) to assure compliance with accepted service, safety, maintenance, performance and regulatory standards. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage, and injuries.

The Engineering staff assists the Consumer Services Section with the technical aspects of complaints that are received from utility customers. The engineers accompany Consumer Services personnel on investigations of such complaints. Assistance is also provided to the Consumer Services Section in the processing of Certificate of Convenience and Necessity (CC&N) applications for all regulated utilities.

The Engineering Section assists the Accounting and Rates Section in the processing of rate case applications, financing applications, purchase power and fuel adjustor, and other cases. The Engineering staff performs plant inspections to determine whether utility plant is used and useful and to establish reconstruction cost new (RCN) values to be used in rate proceedings. The Engineering Section staff also conducts cost of service studies.

The electrical engineers provide continued surveillance of the operation and maintenance of all generating and transmission resources within Arizona. This includes the nation's largest nuclear plant, the Palo Verde Nuclear Generating Station, located approximately 50 miles west of Phoenix. The Engineers also assist the Commission in its role as a member of the Power Plant and Line Siting Committee to determine the environmental compatibility of newly proposed generating station and electrical transmission lines.

In the area of telecommunications, the telecommunications engineer reviews tariff filings, CC&N applications, and evaluates the facilities

originating the telecommunications network in Arizona.

In addition, the Engineering Section maintains a computer aided design (CAD) program for producing detailed utility service area maps for use by the Commission and the general public.

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 staffs offices in Tucson and Prescott.

The Pipeline Safety Group 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, intrastate natural gas transmission/distribution pipelines, interstate hazardous liquid pipelines and master meter natural gas systems operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the gas utility company meter. The Pipeline Safety Group is also involved in the enforcement of the Arizona Underground Facilities, or "Blue Stake" Law.

As a result of these responsibilities, the Pipeline Safety Group monitors the activities of three interstate natural gas transmission pipelines, three interstate hazardous liquid pipelines, twelve major intrastate gas utility operations, one intrastate natural gas transmission pipeline, three intrastate hazardous liquid pipelines, and 1,170 master meter natural gas operations.

During FY 1993-94, the Pipeline Safety Group inspected twelve major intrastate gas utility operators, one intrastate gas transmission operator, three interstate gas transmission operators, three intrastate hazardous liquid pipeline operators, and three interstate hazardous liquid pipeline operations. The Pipeline Safety Group completed 800 comprehensive inspections and 161 specialized inspections, 211 follow up inspections and 61 construction inspection of master meter natural gas distribution systems.

Also during FY 1993-94, the Pipeline Safety Group investigated 156 reported violations of the Underground Facilities Law, 137 notices of violations were issued and \$26,500 in fines were collected. Staff also received 223 notices of incidents from pipeline operators, and pipeline operators shut off gas service to 95 master meter gas systems requiring repair.

The Pipeline Safety Group provided 13 training workshops during the year for operators of master meter gas systems, and assisted master meter operator personnel by making available to them pipe location and leak detection equipment. During FY 1993-94, the group also conducted 12 Blue Stake training classes.

The Pipeline Safety Group and the U.S. Department of Transportation, Transportation Safety Institute, presented four industrial training seminars. The Pipeline Safety Group also assisted with training classes taught at the Transportation Safety Institute in Oklahoma City, Oklahoma. In addition the Pipeline Safety Group provided natural gas safety education material to private and public schools and civic organizations to assist them in safety education efforts.

Railroad Safety Group

The Railroad Safety Group enforces track, freight car, motive power equipment, carrier operation practices, hazardous material shipments by rail and other railroad safety standards of the Federal Railroad Administration (FRA). The Railroad Safety Group is also responsible for inspection and review of industrial track, rail-highway crossings and new railroad construction projects. In addition to its main office in Phoenix, one Railroad Safety Inspector is located 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 1993-94 Railroad Safety staff inspected 5,935 freight cars, 236 locomotives, 836 crossings and 195 industrial track facilities and 1,746 miles of main line track. The low number of main line track inspection miles was due to the Railroad Safety Group's Track Safety Specialist terminating employment to accept a position in private industry. Staff also made 710 inspections of manufacturers and the equipment used to ship and receive hazardous materials by rail. The Railroad Safety Group investi-

26 and 80 railroad accidents/incidents and 36 complaints received from other governmental agencies, railroad employees and the public. The group filed 11 violations of federal railroad safety standards, through the Federal Railroad Administration, against railroads operating in and/or through Arizona.

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, \$2,577,093 in federal funds and \$2,272,458 in state funds have been spent or encumbered to improve safety warning devices on public rail-highway crossings throughout the state. Staff is also responsible for the identification of crossings to be included in the program. As a result, each year a list of 15 - 20 grade crossings in need of safety improvements is submitted to the Commission for its review and approval. The list is then submitted to the cities, towns and/or counties to make applications for funding for safety upgrades.

Additionally, the Railroad Safety 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.

In FY 1993-94, the Railroad Safety Group obtained EISA certification for its Signal & Train Control Specialist and an Operating Practices Specialist. These certifications greatly enhance the Commission's enforcement capability where the inspection of grade crossing automatic warning devices, train control signaling systems, and railroad operating practices are concerned.

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.

During FY 1993-94, the Consumer Services Section, in addition to responding to and resolving complaints and inquiries, administered the Consumer Services Assistance Program, public comment meetings and mediation proceedings. The Section also participated in the preparation of rate case staff reports from the perspective of service quality.

Public Comment Meetings. In an effort to provide customers an opportunity to voice their concerns and opinions on the rates or quality of service of the public utilities serving them, the Consumer Services Section conducts Public Comment Meetings. When a utility files for a rate review, the Consumer Services Section monitors and responds to customer service problems and comments. In many cases, Section staff arranges for a Public Comment Meeting. These Public Comment Meetings have been beneficial in establishing a dialogue between utility companies and the customers. During FY 1993-94, Section staff conducted 15 Public Comment Meetings.

Mediation meetings. The Consumer Services Section also conducts mediation meetings between customers and utility companies when informal complaints have not been resolved. During FY 1993-94, staff conducted 13 mediation proceedings, which led to dispute resolutions in each case.

The following tables list a comparison of inquiries handled by the Consumer Services Section during FY 1991-92, 1992-93, and 1993-94.

	1991-92	1992-93	1993-94
Water Companies	3,664	3,867	2,208
Electric Companies	2,649	2,756	1,788
Gas Companies	828	597	534
Communications Companies	2,954	5,978	4,928
Sewer Companies	<u>94</u>	<u>206</u>	<u>185</u>
TOTAL	10,189	13,404	9,843

	1991-92	1992-93	1993-94
Service Inquiries	2,602	3,987	1,621
New Service Inquiries	701	512	1,128
Filing Inquiries	2,830	2,533	1,728
Deposit Inquiries	920	510	306
Other Inquiries	<u>3,136</u>	<u>13,404</u>	<u>9,843</u>
TOTAL	7,754	12,024	11,222

ADMINISTRATIVE SERVICES SECTION

In addition to providing general administrative support, the Administrative Services Section designs and maintains databases; designs and maintains computerized filing systems; provides research; provides a system for distribution of mail and internally generated documents; provides support service for copying and binding of all Division testimony and filings; administers the assessment program from which the Utilities Division and Legal Division's funds are provided; maintains the annual reports, tariffs and other filings for all regulated utilities; maintains the Division Compliance Program; and maintains the Division Library.

Compliance. Through the computerized database designed and established by the Administrative Services Section, staff monitored 277 compliance items and generated 736 compliance documents.

Other items processed by the Administrative Services Section during FY 1993-94 include:

Staff Reports	99
Testimony	28
Open Meeting Items -	126
Central File Items -	1,123
Telephone calls -	78,126
Faxes	373,868

Library. The Administrative Services Section maintains a multimedia library used by Commission employees and the public, containing research materials which include legal, technical and reference publications, as well as federal and state documents, with special emphasis on utility-related issues. In addition, the library has videotapes on telecommunications, computer programs and self-improvement courses. As of June 30, 1994, 2,590 books and 104 periodicals had been catalogued. During FY 1993-94, the library received and processed 1,123 items.

Docket Control Center. The Docket Control Center maintains the official records for the Utilities and Securities Divisions of the Corporation Commission. In this regard, Docket Control's functions are similar to a court clerk's office. The Docket Control Center also assists the public and staff in retrieving the files and transcripts of cases for use in research. Major activities accomplished during FY 1993-94 include the following:

Applications for Hearings Processed -	426
Filings Docketed and Distributed -	4,741
Research Activities/Assisting Public -	6,306
Case Management System	
Maintenance Actions -	15,902
Daily Updates of Pending Actions -	9,428

Annual Assessments. The Administrative Services Section is responsible for determining the amount and distribution of the annual assessments made on public service corporations as authorized by A.R.S. §§40-401 and 40-401.01. The assessments provide operating funds for the Commission and the Residential Utility Consumer Office. Total revenue collected by assessment during FY 1993-94 was as follows:

	UTILITIES		
	REV. FUND*	RUCO**	TOTAL
Electric	\$3,399,499	\$ 654,683	\$4,054,641
Telephone	1,396,828	244,937	1,641,765
Gas	477,129	112,538	589,667
Water	89,296	28,436	117,732
Sewer	12,587	4,560	17,147
Cellular Telephone Service	<u>161,174</u>	<u>0</u>	<u>161,174</u>
TOTAL	\$5,536,972	\$1,045,154	\$6,582,126

NOTE: Assessment rates were computed as follows:

* 0.1326 percent of intrastate total gross operation revenue.

** 0.0549 percent of intrastate residential gross operating revenue.

Open Meetings. The Commission conducts Open Meetings on a regularly scheduled basis for the purpose of decision making. During FY 1993-94, the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Wtr/ Irr	Sewer	Tel/ Comm	RR	Other	Total
Rates	5	1	31	1	0	0	0	38
Financing	9	1	9	0	2	0	0	21
Fuel Adjustors	0	3	0	0	0	0	0	3
Tariffs	2	6	22	0	80	0	0	110
Communications	2	1	36	2	6	0	0	47
Grade Crossings	0	0	0	0	0	32	0	32
CSO	0	3	2	0	0	0	0	5
Complaints	2	0	5	0	6	0	0	13
Other	12	4	3	0	7	0	1	27
TOTAL	32	19	108	3	101	32	1	296

Flow Extensions, Deletions, Transfers



Chairman
John C. ...

Mission To provide professional, high quality legal representation to the Corporation Commission in the performance of all of its powers and duties, except for matters pertaining to the activities of the securities Division.

The Legal Division represents the Commission in all matters relating to the public utility rate setting, and in other areas not associated with the Securities Division. Securities-related legal cases are litigated by the Attorney General's Office. Matters handled by the Legal Division fall into five general categories: Commission dockets; federal regulatory dockets; litigation; other administrative matters; and special proceedings.

A brief description of the matters handled, by category, is listed below, followed by descriptions of some of the more important proceedings in which the Legal Division participated during FY 1993-94.

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

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

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

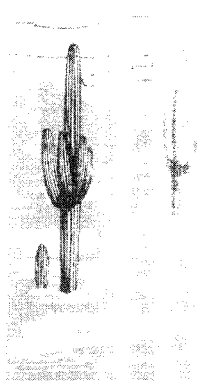
Regulatory Commission ("NRC"), the Department of Transportation - Office of Pipeline Safety, and the Federal Railroad Administration ("FRA").

Among the more important federal proceedings in which the Legal Division appeared on behalf of the Commission during FY 1993-94 was the rate proceeding of Transwestern Natural Gas Pipeline ("Transwestern"). Additionally, the Legal Division was involved in monitoring the ongoing restructuring of the natural gas industry. FY 1993-94 was the first full year following the implementation of restructuring in FERC's Order No. 636 and both Transwestern and El Paso Natural Gas were affected.

In addition, federal legislation frequently results in required action by the Commission. The enactment of the Energy Policy Act of 1992 ("EPACT") is an example. The Commission conducted proceedings during FY 1993-94 relating to the requirements of §12 of EPACT in connection with Regional Transmission Groups.

Litigation. The Legal Division represents the Commission before a variety of courts and either has pending or has recently concluded 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, including the United States Supreme Court. Decisions involving three regulated utilities were received from the Court of Appeals during FY 1993-94.

The Legal Division has been called upon with increasing frequency to represent the Commission in Bankruptcy Court in matters involving regulated utilities. Three utilities had active bankruptcy proceedings during FY 1993-94. The complexity and time-consuming nature of bankruptcy proceedings makes it likely that Bankruptcy Court proceedings will be a permanent part of the Legal Division's representation of the Commission for the foreseeable future.



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 Incorporation, 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, expert communications, filing requirements and a variety of similar matters.

The Legal Division's involvement in representing the Corporations Division has been an area of increasing activity over the past several years. The trend continued during FY 1993-94, including representation of the Commission in litigation related to the Commission's obligation to prevent deceptively similar corporate names.

Special Projects. The Legal Division participated in the revision of all rules that pertain to the Corporations Division and the Utilities Division including the Pipeline and Railroad Safety Groups. During FY 1993-94, the following rulemaking proceedings were either initiated or ongoing: rulemaking related to alternate operator service providers; rulemaking related to the consideration of environmental criteria in the integrated resource planning process; and rulemaking related to Blue Stake requirements. In addition to participating in the rulemaking proceedings, the Legal Division has been responsible for representing the Commission in litigation that has occurred following the rulemakings.

The trend towards increasing numbers and size of utility rate applications continued during FY 1993-94. Several of the State's major utilities had cases before the Commission during FY 1993-94 which involved large requested increases and required the commitment of all of the resources available to the Legal Division.

The first review of Southwest Gas Corporation ("Southwest"), which commenced during FY 1992-93 was concluded at the beginning of FY 1993-94. Although Southwest sought a rate increase for both of its Arizona operating divisions, the Legal Division was instrumental in obtaining a dismissal by the Commission of the request for an increase in rates for the Southern

Division. In addition, the Commission considered matters relating to Southwest's purchased gas adjustor clause ("PGA") during FY 1993-94.

Issues surrounding Tucson Electric Power Company ("TEP") continued to require substantial commitments during FY 1993-94, as they had during previous fiscal years. In January 1993, shortly after approval of a complex financing application, TEP filed an application for an increase in rates, including two separate requests for interim increases. Hearings were held on TEP's application during August and September of 1993 and the Commission decided the case in January of 1994.

A U S West Communications ("US West") rate increase application filed in FY 1992-93 received substantial action during FY 1993-94. U S West rate cases are among the most complex and time and resource consuming proceedings to face the Commission. The issues addressed involve not only those common to most large utilities, but also many specific to the telecommunications industry. Extensive hearings on this case were held in May and June of 1994. The case is expected to conclude during FY 1994-95. In addition, the Legal Division represented the Utilities Division in a proceeding in which US West sought authority to sell several of its rural exchanges. The application was considered and approved by the Commission during FY 1993-94.

Throughout FY 1993-94 the Commission was engaged in an extensive examination of competition issues involving all stakeholders and consumer groups and was engaged in the process of examining issues related to regulatory reform in the emerging telecommunications industry. The Legal Division was involved in all aspects of these examinations. Events occurring during FY 1993-94 included a number of workshops and task force meetings, all leading up to a rules proceeding which is anticipated to be commenced during FY 1994-95.

Other major proceedings to which the Legal Division resources were devoted during FY 1993-94 include: a hearing on the Citizens Utilities Co.'s request for a rate increase for its Northern Arizona Gas Division; the first rate reduction in the history of Arizona Public Service Company ("APS"); and proceedings before the Commission, the Power Plant and Line Siting Committee of Arizona and in court relating to the siting of a transmission line for Salt River Project ("SRP").

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 legal staff as counsel for Utilities Division staff, additional Legal Division personnel were assigned to advise the Commissioners.

The Commission's rules relating to transactions with unregulated affiliates have been in effect since FY 1992-93. The rules create an ongoing responsibility to consider and process applications and reports required under the rules. During FY 1993-94, several applications and numerous reports were filed under the rules, all of which required scrutiny by attorneys in the Legal Division. In one instance, enforcement of these rules led to litigation in both federal and state courts, in which the Legal Division represented the Commission. These activities can be expected to continue indefinitely.

Resource Planning continues to be an important area of concern to the Commission, as it impacts not only the utilities the Commission regulates, but also the future of the resources and environment of the State. The Commission's efforts with respect to Resource Planning demanded considerable resources from the Legal Division during FY 1992-93. Task forces established in the previous fiscal year, dealing with costs to be included in the total societal costs of planned generation additions and issues related to flexible hook-up fees, were active and produced final reports and recommendations for the Commission. One result of these reports was the establishment of a working group to begin the process of creating rules that address the task forces' recommendations. The resource planning effort is an ongoing one into the indefinite future, requiring significant commitments of time and personnel from Legal Division.

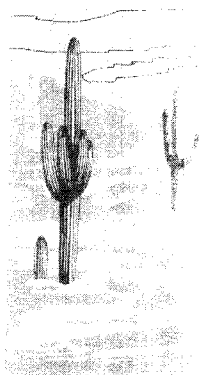
As noted in several areas of this Annual Report, the Corporation Commission maintains a Southern Arizona Office in Tucson at 400 West Congress Street. This office provides many of the same services as the offices in Phoenix. Sections of the Corporations and Utilities Divisions as well as a Hearing Officer from the Hearing Division are located in Tucson.

During FY 1993-94, the Corporations Section processed 1,537 filings of Articles of Incorporation and 8,868 Annual Reports. The section continued to experience growth in most types of services to Southern Arizona business entities including the processing of 641 applications under the Limited Liability Company Act and the issuance of 797 Certificates of Good Standing.

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

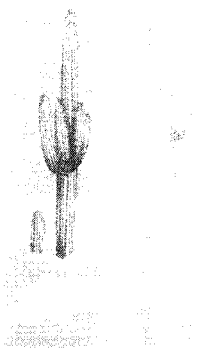
The Hearing Officer in Tucson conducts hearings on matters of interest to residents and utilities located in Southern Arizona. In addition to holding hearings in Tucson, the Hearing Officer often travels to and conducts hearings in the Southern Arizona communities affected by the proceeding.

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



CORPORATION COMMISSIONERS SINCE STATEHOOD

J. W. Cole	Democrat	1912-1917
W.P. Geary	Democrat	1912-1915
S. A. Jones	Democrat	1912-1919
Samos A. Betts	Democrat	1917-1933/1938-1945
David F. Johnson	Democrat	1919-1924
Claren Vaughn	Democrat	1921-1932
W.D. Claypool	Democrat	1925-1930
Charles R. Howe	Democrat	1931-1936
Wilson T. Wright	Democrat	1933-1953
John Cummard	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
Dale 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
W.P. "Jack" Buzard	Democrat	1959-1962
John F. Clark	Republican	1963-1964
Milton J. Husky	Democrat	1965-1970
Jack 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
Tom Weeks	Democrat	1977-1982
Stanley Akers	Republican	1979-1980
John Ahearn	Democrat	1980-1981
Duane McCarthy	Republican	1981-1984
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



Fiscal Resources. Through the budget process, the Arizona Corporation Commission has continued to identify fiscal resource requirements to meet its constitutional and statutory responsibilities. The Commission receives funding through several sources: the State General Fund, the Utility Regulation Revolving Fund, the Arts Trust Fund, the Securities Regulatory and Enforcement Fund, the Public Access Fund, Federal Grants and in FY 1993-94, began receiving securities program funding associated with the Investment Management Act. The first three sources require legislative appropriation. The Administration and Hearing Divisions as well as the Railroad Safety Group of the Utilities Division are funded from the General Fund. In addition to General Funds, the Administration Division receives limited funding from the Utilities Regulation Revolving Fund and the Corporations Division is the recipient of funding from the Arts Trust Fund and Public Access Fund. The Securities Division receives General Funds as well as a portion of the fees it collects through the Securities Regulatory and Enforcement Fund and the newly established Investment Management Act Fund. The Utilities, excluding the Railroad Safety Group, and the 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 significantly more revenue from securities and broker registrations, corporation filing fees, fines, and miscellaneous service charges than its General Fund requirements. All revenue of this type flows to the state General Fund and is used to defray state government operating costs. During FY 1993-94, the Corporation Commission provided the fourth highest amount among all state agencies to the General Fund.

The following tables portray revenue and expense data for FY 1992-93 (Actual), FY 1993-94 (Report Year Actual), and FY 1994-95 (Estimated).

	Actual <u>1992-93</u>	Actual <u>1993-94</u>	Estimate <u>1994-95</u>
Corporation Filing Fees*	\$4,497,400	\$4,425,200	\$5,000,000
Security and Broker Fees*	6,485,600	8,367,300	8,500,000
Miscellaneous Service Charges*	71,200	68,800	70,000
Fines and Forfeitures*	125,200	669,000	180,000
Utility Assessments	5,688,800	5,537,000	5,800,000
Pipeline Safety Revolving Fund-Fines	0	90,000	50,000
Sec. Regulatory & Enforcement Fund	961,900	1,524,800	1,328,000
Sec. Investment Mgt. Act Fund	0	86,800	363,300
Arts Trust Fund	1,166,700	1,013,900	1,100,000
Public Access Fund	367,500	845,500	950,000
Limited Liability Fund	66,500	0	0
Federal Grant	<u>201,200</u>	<u>100,300</u>	<u>70,900</u>
TOTAL	\$19,632,000	\$22,728,600	\$23,412,200

* Deposited in the State General Fund

TABLE 2
EXPENDITURES BY BUDGET PROGRAM

	Actual <u>1992-93</u>	Actual <u>1993-94</u>	Estimate <u>1994-95</u>
Administration & Hearing Divisions	\$1,892,900	\$1,997,900	\$1,805,700
Corporations Division	1,380,500	1,905,200	2,447,700
Securities Division	2,408,400	2,759,600	3,318,600
Railroad Safety Group (Utilities Division)	399,700	411,100	388,400
Utilities Division	4,938,900	4,756,500	4,877,400
Legal Division	<u>932,700</u>	<u>942,700</u>	<u>995,100</u>
TOTAL	\$11,951,100	\$12,773,000	\$13,832,900

TABLE 3
EXPENDITURES BY FUND SOURCE

	Actual <u>1992-93</u>	Actual <u>1993-94</u>	Estimate <u>1994-95</u>
General Fund	\$4,989,600	\$5,129,500	\$4,985,700
Arts Trust Fund	25,900	26,800	28,000
Securities Regulatory & Enforcement Fund	862,700	1,197,600	1,262,300
Securities Inv. Management Act Fund	0	0	399,100
Utility Regulation Revolving Fund	5,670,500	5,618,000	5,891,100
Public Access Fund	134,800	719,900	1,176,700
Limited Liability Fund	66,400	0	0
Federal Grant	<u>201,200</u>	<u>81,200</u>	<u>90,000</u>
TOTAL	\$11,951,100	\$12,773,000	\$13,832,900

On May 7, 1993, Citizens Utilities Company-Arizona Gas Division (Citizens) filed an application requesting an increase in the rates and charges for natural gas service and for approval of the Accrual Method of accounting for post retirement benefits other than pensions (PBOPs). The filing also contained Citizens' request to approve a Build Out Program for Northern Arizona.

Citizens requested an increase in revenues of \$6.6 million. The Commission approved an increase of \$2.5 million, which was slightly higher than staff's recommended increase of \$2.7 million.

There were several areas of dispute in the case, as explained below. Citizens' proposed cost of capital was 10.24 percent. Staff's recommended cost of capital was 9.11 percent. The proposed equity cost rates by Citizens and staff were 12 percent and 10.30 percent, respectively. The Commission authorized a 9.23 percent cost of capital, which included a 10.50 percent return on equity.

Citizens requested the inclusion of approximately \$600,000 of acquisition related costs in rate base. Staff recommended removing the costs until Citizens can meet the requirement of Decision No. 57647 which requires Citizens to show the acquisition has resulted in savings due to structural advantages. The Commission agreed with staff's recommendation.

Staff proposed customer annualization adjustments which increased Test Year revenues by approximately \$1 million. Citizens calculated revenues based upon recorded Test Year sales to customers. The Commission agreed with staff's \$1 million revenue annualization adjustment.

Staff recommended that payroll expense be reduced by \$300,000. The Commission agreed and disallowed \$300,000 of Citizens' proposed payroll expense. Staff noted that Citizens' level of annualized payroll costs would not occur until 1994, and by that time, Citizens will have experienced a full year's customer growth which will not be reflected and which will therefore distort the Test Year.

The Commission disagreed with Citizens' proposed accrual accounting method for Post Retirement Benefits Other Than Pensions. The Commission authorized the pay-as-you-go method which resulted in a reduction of \$114,000 in PBOP expense.

Finally, a Build Out Plan was designed to enable

Citizens to serve customers in its current Certificate of Convenience and Necessity that were not being served because it was uneconomical or impractical to do so. In order to do this, Citizens needed to expend resources to construct the necessary plant to serve those customers. Citizens requested special regulatory treatment for existing service areas as well as new service areas. Among the requests were post-in-service allowance for funds used during construction (AFUCD) treatment and automatic annual step increases in rates. In return, Citizens promised to proceed with the Build Out Program and to not seek general rate relief to become effective before July 1, 1998. Another feature of the Build Out was Citizens' request for a "new area service multiple" (NSAM). Citizens proposed a NASM charge equal to 150 percent of current rates. Staff agreed with the Company concerning the NSAM issue. However, staff had some concerns with the other proposals. Staff supported the Company's request for AFUCD, but only for those capital expenditures associated with providing service to the new service areas. Capital expenditures for current service areas should be considered "business as usual" and not receive special AFUCD treatment. Additionally, staff did not agree with Citizens' automatic step increase in rates. Potentially granting automatic rate increases on partial criteria would not be fair to ratepayers. The Commission concurred with staff on these issues.

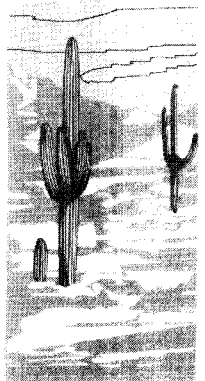
Southwest Gas Corporation
Docket No. U-1551-93-272
Decision No. 58693

On October 29, 1993, Southwest Gas Corporation (Southwest) filed an application for an increase in rates for natural gas in its Southern Arizona Division. The Company requested an increase in revenues of \$10 million. Southwest, staff and RUCO agreed on a Settlement which was filed with the Commission on June 21, 1994. The Commission approved the Settlement in Decision No. 58693, dated July 7, 1994. The Settlement authorized an increase in revenues of \$4.325 million.

There were several significant items contained in the Settlement, as detailed below.

Southwest agreed to write-off \$4.445 million in gross plant-in-service relating to pipe replacements. Additionally, Southwest agreed to future write-offs of pipe replacement costs in accordance with formulas contained in the Settlement.

The Low Income Residential Assistance dis-



costs will be increased from 15 percent to 20 percent.

Southwest's fair value rate base was determined to be approximately \$197 million and a rate of return on fair value rate base was granted at 7.37 percent.

Southwest agreed to not file a rate application for its Southern Division before November 1, 1996.

The Commission approved Settlement reduced Southwest's requested revenue increase by more than 55 percent and ensures rate stability for ratepayers for approximately three years. Also, the pipe replacement write-offs, currently and prospectively, will assist in mitigating future rate increases for natural gas service for its Southern Division customers.

On April 20, 1994, staff and Arizona Public Service Company (APS) filed a Settlement Agreement (Settlement) and requested that a procedural order be issued establishing a timetable to present the Settlement to the Commission. The settlement was the culmination of months of discussions between staff and APS regarding APS' current rates. Staff initiated the settlement process because a number of events had occurred which indicated that APS' rates should be reviewed. The current rates which were in effect resulted from Decision No. 57649, dated December 1, 1991. The Commission agreed with the Settlement and issued Decision No. 58644, dated June 7, 1994. The Settlement authorized a decrease in revenues of \$38.3 million. Also, APS agreed to refrain from filing for a change to its general rates and charges until December 31, 1995.

The events that led to the Settlement were:

- Capital costs for APS had fallen.
- APS had refinanced debt, and retired preferred stock and issued lower-cost preferred stock.
- APS had initiated several programs that reduced costs and improved efficiency.
- APS had experienced significant growth in kWh sales related to new customers.

The staff initiated Settlement, approved by the Commission, reduced rates by approximately 2.7 percent and ensures rate stability for ratepayers for at least three years. The decrease resulted in a \$0.24 per kWh reduction for the majority of APS' customers.

The Settlement, also, contained a number of issues which set forth principles to be followed/achieved in the next rate case, as well as resolved a number of outstanding issues from the prior rate case Settlement.

The significant issues are summarized below:

1. APS will actively pursue residential rate savings by reducing operating costs to offset increases in externally imposed expenses, such as interest and other capital costs, fuel and taxes. APS also requires regulatory flexibility and pricing freedom to respond to competitive forces and financial risks inherent in the larger customer classes. Staff and APS agreed to meet periodically to develop pricing and operating procedures that are responsive to market conditions.
2. APS was allowed increased funding for decommissioning of all three Palo Verde Units.
3. All three of the Palo Verde generating units were used and useful and included in rate base, less the net prudence disallowance required by the 1991 Settlement.
4. Staff and APS agreed that significant expenditures on both cost effective Demand Side Management (DSM) and renewable resources development will be made by APS. APS will be entitled to recover costs for all pre-approved DSM and renewables through the Energy Efficiency and Solar Energy Fund (EEASE).
5. In accordance with the Commission's goal of establishing regulatory procedures which encourage superior utility performance, APS has the opportunity to earn a reward in its next general rate proceeding if that rate proceeding results in no increase in residential rates.
6. The revenue requirement in the proceeding does not include an allowance for Post Retirement Benefits Other Than Pensions (PBOPs) as required under SFAS 106. Although the Commission has not previously permitted recovery of this liability accounting approach for any Arizona regulated utility, staff will consider recovery of these expenses in future rate proceedings.
7. Staff and the Commission supported APS' goal of continuous progress toward a 40 percent common equity ratio. As a result, APS will be allowed to amortize its remaining balance of Investment Tax Credits over a five year period upon receipt of a favorable ruling from the Internal Revenue Service.

ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007