



94th
Annual Report

OKLAHOMA
CORPORATION
COMMISSION

FISCAL YEAR 2001

July 1, 2000 - June 30, 2001

OUR POLICY:

★ SERVICE

★ ASSISTANCE

★ COMPLIANCE

★ EXCELLENCE IS OUR STANDARD ★

OUR MISSION:

To regulate, enforce laws and supervise activities associated with the exploration and production of oil and gas, the storage and dispensing of petroleum-based fuels, the establishment of rates and services of public utilities, and the operation of intrastate transportation to best serve the economic needs of the public. In the interests of the public, the Commission will oversee the conservation of natural resources to avoid waste, abate pollution of the environment, and balance the rights and needs of the people with those of the regulated entities which provide essential and desirable services for the benefit of Oklahoma and its citizens.

Want to Know More?

Join us on the Internet for news, meeting and docket posting, rules, forms, program updates and useful consumer information.

www.occ.state.ok.us

Produced by the Office of Public Information

W. Larry Shaver, General Administrator

Jim Palmer, Director of Information Services

Matt Skinner, Public Information Officer

PO Box 52000-2000, Oklahoma City, OK 73152-2000 Phone: (405)521-4180

Fax: (405)521-6945 E-Mail: j.palmer@occmil.occ.state.ok.us

This publication, printed at the Department of Central Services' Central Printing Division, Oklahoma city, Okla., is issued by the Corporation Commission of Oklahoma as authorized by Article XI, Sections 18, 25 and 29 of the Oklahoma State Constitution; Title 65, Section 3-114 of the Oklahoma Statutes, and in accordance with SSJR20, 1974, passed by the 2nd Session of the 34th Oklahoma Legislature. 200 copies have been prepared and distributed at a cost of \$532.50. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

Oklahoma Corporation Commission

Jim Thorpe State Office Building
Oklahoma City, OK 73105

The Honorable Frank A. Keating
Governor of Oklahoma
The State Capitol
Oklahoma City, Oklahoma 73105

Dear Governor Keating:

Pursuant to the requirements of the Constitution of the State of Oklahoma, we are pleased to submit this 94th Annual Report of the Oklahoma Corporation Commission for the period of July 2000 through June 2001 – Fiscal Year 2001.

In FY01, much of the Commission's focus was on the crisis caused by the drastic increase in natural gas prices. Commissioners held public hearings with utility and consumer groups prior to the heating season on the matter, warning of what was to come and pursuing proposals to help ratepayers who would be hard-hit by what was expected. In the end, the unexpectedly harsh winter combined with the expected natural gas shortage to push prices to record highs. The Commission did all in its power to help mitigate its impact on Oklahomans, and to help those hit hardest by the crisis.

Telecommunication issues also occupied center stage for much of the fiscal year, particularly Southwestern Bell's effort to become a long distance provider in Oklahoma.

The Commission continued its efforts at public education outreach on key issues of regulated energy, natural gas, electricity and telecommunications utility services. Consumer Services responded to thousands of inquiries and resolved complaints in all areas of oil and gas, utilities and transportation.

This Annual Report provides a factual review and overview of Corporation Commission activities and accomplishments during Fiscal Year 2001.

Respectfully Submitted,



DENISE A BODE, Chairman



BOB ANTHONY, Vice Chairman



ED APPLE, Commissioner

ATTEST:



PEGGY MITCHELL, Secretary

CONTENTS

Volume I

Corporation Commission History, 3

Present Commissioners, 4-5

Chronology of Commissioners, 6

Organization Chart, 7

Administration, 8

Financial Statements, 9-11

Applications and Orders, 12

Administrative Proceedings, 13

Consumer Services Division, 14-16

Data Processing Division, 17-19

General Counsel, 20-25

Oil and Gas Conservation Division, 26-29

Petroleum Storage Tank Division, 30-31

Public Utility Division, 32-41

Transportation Division, 42-43

Volume II

Rules ***

*** Pursuant to Article 9, Section 18 of the Oklahoma Constitution, transportation and transmission rules adopted in Fiscal Year 2001 are published as Volume II of this Annual Report. A copy of Volume II is available by contacting the Office of Public Information, Oklahoma Corporation Commission, PO Box 52000,-2000, Oklahoma City, OK 73152-2000.

The Oklahoma Corporation Commission Regulates Essential Public Services

The Corporation Commission was established in 1907 by Article 9 of the Oklahoma Constitution, and the First Legislature gave the Commission authority to regulate public service corporations, those businesses whose services are considered essential to the public welfare.

The legal principle for such regulation had been established in 1877 when the United States Supreme Court upheld a lower court ruling, *Munn v. Illinois*, that when a private company's business affects the community at large, it becomes a public entity subject to state regulation.

Initially, the Corporation Commission regulated transportation and transmission companies, mostly railroads and telephone and telegraph companies. The Commission also was directed to collect and maintain records of the stockholders, officers and directors of all corporations chartered or licensed to do business in Oklahoma (about 12,500 at statehood).

As the state grew, the records collection task became larger than one agency could handle. The Commission kept authority for public service companies, and responsibility for other corporations was allocated to the Secretary of State and other state commissions and agencies according to business type.

The Second Legislature put oil pipelines under regulation. The Commission began regulating the prices of telephone calls in 1908 and telegrams in April 1912. Regulation of water, heat, light and power rates began in 1913.

The Commission began regulating oil and gas in 1914 when it restricted oil drilling and production in the Cushing and Healdton fields to prevent waste when production exceeded pipeline transport capacity. In 1915, the Legislature passed the Oil and Gas Conservation act. This expanded oil and gas regulation to include the protection of the rights of all parties entitled to share in the benefits of oil and gas production. Also in 1915, the Legislature declared cotton gins to be public utilities and extended Corporation Commission authority over utility companies to include practices as well as rates.

While the basic regulatory responsibility of the Corporation Commission has remained intact, many changes in state and federal laws have changed what is regulated. The Commission presently regulates public utilities, except those under municipal or federal jurisdiction or exempt from regulation; oil and gas drilling, production and environmental protection; the safety aspects of motor carrier, rail and pipeline transportation and the environmental integrity of petroleum storage tank systems.

The federal Motor Carrier Act of 1995 ended state authority for economic regulation (rates and routes) of intrastate transport of most commodities, but the Corporation Commission continues to enforce requirements for operating authority and insurance.

The Corporation Commission also enforces federal regulations for underground injection of water and chemicals, underground disposal of certain oil and gas waste fluids and remediation of soil and groundwater pollution caused by leaking petroleum products storage tanks.

The Corporation Commission has judicial, legislative and administrative authority. Three commissioners elected by statewide vote rule on all regulatory matters within Corporation Commission jurisdiction. Commission orders are appealable only to the Oklahoma Supreme Court.

The Commissioners

The Corporation Commission comprises three commissioners who are elected by statewide vote to serve six-year terms. The terms are staggered so one commissioner vacancy occurs every two years. The election pattern was established when the Commission was created by the state constitution. The first three elected commissioners drew lots for two-year, four-year and six-year terms.

In-term vacancies are filled by gubernatorial appointment. Appointed commissioners serve until the next regular election. Thirteen commissioners have been seated by appointment.

Through the end of Fiscal Year 2001, 35 persons had filled 38 commissioner vacancies. E.R. Hughes is the only commissioner to serve two non-successive terms. He was elected in 1920, lost a bid for reelection in 1926, then won another term in 1928.

Until the election of Bob Anthony in 1988, Hughes had been the only Republican elected or appointed to the Commission. The election of J.C. Watts in 1990 gave Republicans their first majority. The Republican majority continued with the appointment of Ed Apple to succeed Watts in 1995. The appointment of Denise Bode in 1997 to replace Cody L. Graves, a Democrat, who resigned, gave Republicans all three Commission seats.

There have been 34 Commission panels (three commissioners sitting together) since the Corporation Commission was created in 1907. The average tenure for a panel is about 4 years. The panel with the longest tenure was the 20th, when Harold Freeman, Wilburn Cartwright and Ray C. Jones sat together for more than 13 years (1955-1968). Jones has the longest individual tenure, serving nearly 30 years before retiring in January, 1976 for health reasons.

Denise A. Bode, Chairman

Term: January 1999 — January 2005

Denise Bode is the 35th person and only the second woman to serve as a Corporation Commissioner. Appointed by Gov. Frank Keating, she took office on Aug. 20, 1997. She was elected to a full six-year term in November 1998.

Born in Tulsa and raised in Bartlesville, Bode graduated with a bachelor's degree in political science from the University of Oklahoma in 1976. She has a law degree from George Mason University and a master's degree in law and taxation from Georgetown University.

Before joining the Commission, Bode was president of the Independent Petroleum Association of America, the chief advocate for America's 8,000 oil and natural gas producers.

Bode preceded her service at IPAA as a founding partner of Gold and Liebengood, a Washington D.C. firm that represented a broad range of businesses. Bode also spent nine years as an aide to former Governor and U.S. Sen. David Boren (D-Okla.), serving as legal counsel on energy, environment, tax and trade issues and handling all matters related to the Senate Finance Committee.

Bode was selected The Journal Record's 1999 Woman of the Year, and as one of Oklahoma's "Women of Influence" by *Oklahoma Family Magazine*. She was also selected as a member of the 1999-2000 Leadership Oklahoma class. Bode serves on the Board of Trustees of the Oklahoma Foundation for Excellence and the Interstate Oil and Gas Compact Commission, as well as on the governing board of the Jasmine Moran Children's Museum in Seminole, and the Boards of the Oklahoma Arts Institute and the Community Literacy Center. She is also on the Board of Directors of the Oklahoma Academy for State Goals, chairs the Oklahoma Rhodes Scholarship selection committee, and is on the National Association of Regulatory Utility Commissioners (NARUC) Telecommunications Committee.

Bode and her husband John, a practicing partner in the law firm of Olsson, Frank and Weeda, have an 18-year old son, Sean. They have a home in Oklahoma City as well as a ranching operation in western Oklahoma.



Bob Anthony, Vice - Chairman

Term: January 2001 — January 2007

Bob Anthony was elected in November 1988 and re-elected in November 1994 and November 2000. He was the first Republican commissioner elected since 1928 and the first Republican state government incumbent re-elected to a statewide office in Oklahoma's 92 year history. In his last election, he garnered the most votes of any candidate for state office in Oklahoma history.

Anthony was born and lives in Oklahoma City. He was an Oklahoma City councilman in 1979-80. Prior to election to the Corporation Commission, Anthony was president of the C.R. Anthony Co., a regional clothing store chain, from 1980 to 1987.

Anthony is a graduate of the Wharton School of Finance, University of Pennsylvania, BS; London School of Economics, MSc; Yale University, MA; and Harvard University, Kennedy School of Government, MPA. He was a staff economist, Committee of the U.S. House of Representatives in 1972 and an economic consultant for the U.S. Library of Congress in 1979. He served to the rank of captain in the Army Reserve, 1966-78.

In 1995, Anthony received the FBI's highest award given to "a citizen who, at great personal sacrifice, has unselfishly served his community and the nation."

Anthony serves on the Natural Gas Committee of the National Association of Regulatory Utility Commissioners (NARUC). He is a member of the board of the Skyline Urban Ministry and Crown Heights United Methodist Church. Anthony and his wife Nancy have four daughters.



Ed Apple, Commissioner

Term: January 1997 — January 2003

Ed Apple was appointed to the Corporation Commission in January 1995 to complete an unexpired term. He was elected to a full six-year term in November 1996. He served as Chairman of the Commission from July 1997 to July 1999.

Apple was born in Tulsa, and has lived in Duncan since 1966. He received a bachelor's degree in marketing from the University of Oklahoma in 1955. Following graduation, he served in the U.S. Marine Corps as a jet fighter pilot both on active duty and in the active reserves. He retired from the Marine Corps Reserves in 1969 with the rank of Major.

Apple began a business career in 1958 as co-owner of a family-owned restaurant in Tulsa. He joined the Hagggar Slacks Co. in Dallas in 1963. He managed Hagggar clothing manufacturing plants in Duncan and Oklahoma City from 1966 to 1975. He was a senior vice president of Security National Bank in Duncan, 1975-1985. He managed the Duncan office of Cotton Electric Cooperative from 1990 until his appointment to the Corporation Commission. Apple served four terms in the Oklahoma Legislature from Stephens County, 1986-1994. He has been active in many civic and economic development programs in Duncan, and was honored as Duncan Chamber of Commerce Man of the Year as well as the Duncan Jaycees Boss of the Year.

Apple and his wife Betty have two married daughters.



Corporation Commissioners Since 1907

(D)-Democrat (R)-Republican (A)-Appointed (E)-Elected (RE)-Re-elected

Andrew P. Watson (D)
E—1907
RE—1908
RE—1914
Impeached—1915

J.E. (Jack) Love (D)
E—1907
RE—1912
Died in Office—1918

J.J. McAlester (D)
E—1907

George Henshaw (D)
E—1910

W.D. Humphrey (D)
A—1915
E—1916
Resigned—1919

Campbell Russell (D)
E—1916

Art L. Walker (D)
A—1918
E—1918
Resigned—1923

R.E. Echols (D)
A—1919

E.R. Hughes (R)
E—1920

Frank Carter (D)
E—1922

C.C. Childers (D)
E—1926

E.R. Hughes (R)
E—1928

Joe B. Cobb (D)
A—1923

Fred Capshaw (D)
E—1924

Paul A. Walker (D)
E—1930
Resigned—1934

J.C. (Jack) Walton (D)
E—1932

A.S.J. Shaw (D)
E—1934

Reford Bond (D)
A—1934
E—1936
RE—1942
RE—1948
Died in Office—1954

Ray O. Weems (D)
E—1938
RE—1944
RE—1950
Resigned—1955

Ray C. Jones (D)
E—1946
RE—1952
RE—1958
RE—1964
RE—1970
Resigned—1976

Wilburn Cartwright (D)
A—1954
E—1954
RE—1960
RE—1966

Harold Freeman (D)
A—1955
E—1956
RE—1962

Charles Nesbitt (D)
E—1968

Rex Privett (D)
E—1972

Hamp Baker (D)
E—1974
RE—1980

Jan Eric Cartwright (D)
A—1976
E—1976
Resigned—1979

Bill Dawson (D)
E—1978
Resigned—1982

Norma Eagleton (D)
A—1979
E—1980
RE—1982

James B. Townsend (D)
A—1982
E—1982
RE—1984

Bob Hopkins (D)
E—1986
Resigned—1991

Bob Anthony (R)
E—1988
RE—1994
RE—2000

J.C. Watts Jr. (R)
E—1990
Resigned—1995

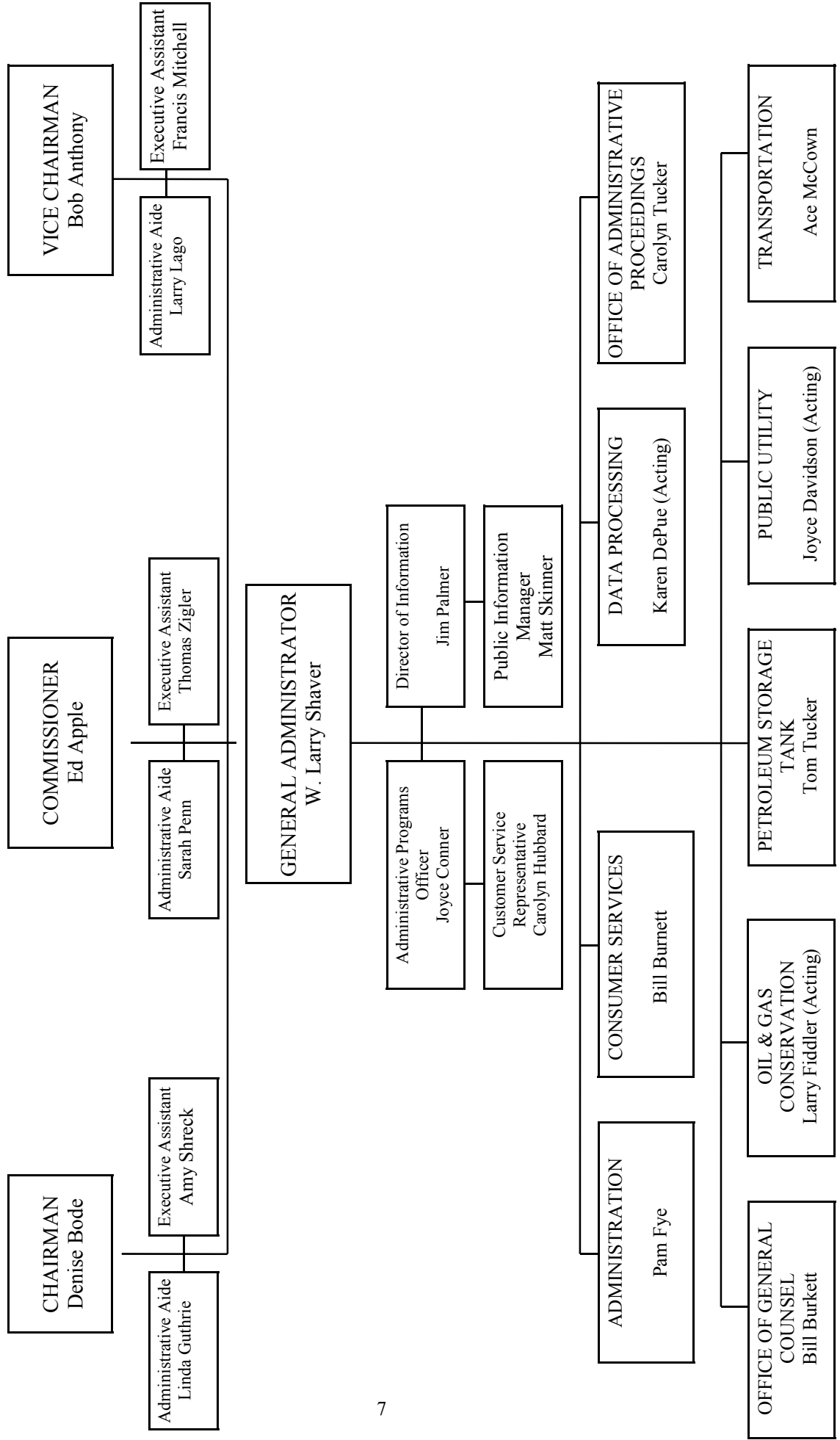
Cody L. Graves (D)
A—1991
E—1992
Resigned—1997

Ed Apple (R)
A—1995
E—1996

Denise A. Bode (R)
A—1997
E—1998

OKLAHOMA CORPORATION COMMISSION

June 30, 2000



Administration

The Administration Division consists of the Human Resources Department, the Office of Public Information, Finance, and the Commission Secretary.

The Human Resources Department processed 510 personnel actions related to hiring, promotions, pay movements, demotions, and terminations during the 2001 fiscal year. Recruitment practices resulted in the posting of 72 vacancy announcements during this period.

Updates and revisions to agency policies were completed. Access to policies will be made available online.

In-house training was made available to directors, supervisors, and managers regarding the *Personnel Policies and Practices* course presented by Office of Personnel Management staff.

The vacancy in the **Office of Public Information** created by the death of long-time Public Information Manager Pat Petree the previous fiscal year, was filled with the hiring of Matt Skinner, who brings more than 20 years of media experience to the position.

Fiscal year 2001 saw the continuation of the Commission's weekly radio show, entitled "It's Your Money." The public service program covers the major issues dealt with by the Commission, and serves as a vehicle for dispensing information of vital interest to consumers in the areas of energy, public utilities, transportation, and the environment. Radio stations aired the program as a public service, at no charge.

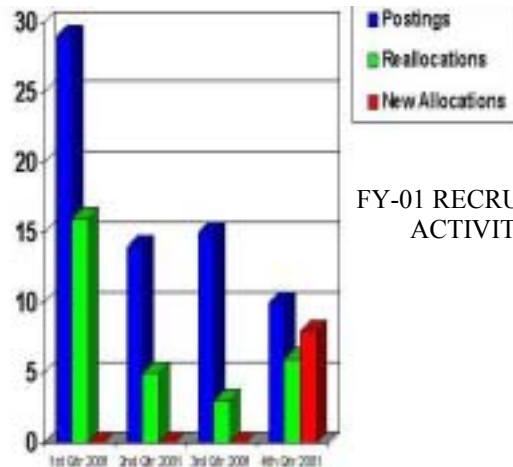
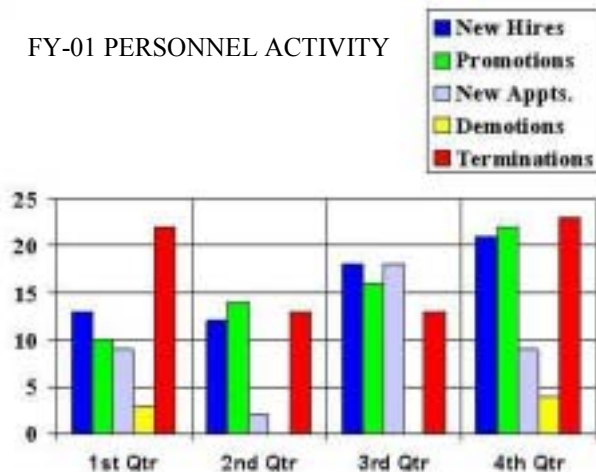
The Office worked closely with media and the Consumer Services Division to both warn the public of the feared rise in natural gas prices and serve as an information resource to those seeking answers to questions stemming from what proved to be record increases in the price of natural gas.

The Office also distributed (both directly and with the assistance of state legislators) a publication addressing the issue of gas prices, providing answers to the most common questions regarding the crisis, and providing other related information. The Office also worked to provide those in need of such information a listing of agencies and organizations offering financial assistance on utility bills.

In a project overseen by the Office, a new sound system was installed in the main Commission courtroom in order to facilitate both media coverage of and public participation in Commission proceedings.

The interactive feature on the Commission's web site, "Feedback Corner" was in its third year of operation in Fiscal 01, and continued to see steady growth in traffic. It offers an easy way for the public to send a question or comment to the Commission and receive a fast, personal response.

FY-01 PERSONNEL ACTIVITY



FY-01 RECRUITMENT ACTIVITY

Five Year Summary

Revenue Sources and Applications

OKLAHOMA CORPORATION COMMISSION
Statement of Sources and Applications (CASH BASIS)
For the Fiscal Year Ending June 30

| SOURCES | 2001 | 2000 | 1999 | 1998 | 1997 |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Revenue Fund | \$9,998,836 | \$9,558,394 | \$9,800,453 | \$10,107,971 | \$5,115,523 |
| Oil & Gas Conservation Fund | | | | 1,148,800 | 5,270,980 |
| Revolving Funds | 9,125,646 | 9,263,966 | 8,812,144 | 8,461,009 | 7,466,778 |
| Public Utility Assessment Fund | 4,812,545 | 5,027,119 | 4,764,894 | 4,823,036 | 4,611,875 |
| Indemnity Fund | 3,104,253 | 2,849,581 | 2,968,103 | 1,971,431 | 1,501,648 |
| Well Plugging Fund | 1,443,449 | 823,711 | 590,064 | 864,527 | 911,037 |
| Federal Funds | 2,420,579 | 1,424,963 | 1,243,102 | 1,370,049 | 2,218,042 |
| Other Funds | 251,340 | 345,977 | 361,158 | 389,251 | 114,936 |
| TOTAL AVAILABLE | \$31,156,648 | \$29,293,711 | \$28,539,918 | \$29,136,074 | \$27,210,819 |
| APPLICATIONS | | | | | |
| Administration | \$2,445,542 | \$2,239,950 | \$2,211,518 | \$2,095,194 | \$2,193,616 |
| Consumer Services Division | 818,460 | 807,201 | 754,930 | 697,586 | 650,985 |
| Petroleum Storage Tank | 5,593,785 | 4,218,601 | 3,823,153 | 3,384,100 | 3,420,362 |
| Oil & Gas Division | 5,980,526 | 5,845,345 | 6,065,253 | 6,140,584 | 4,595,590 |
| Well Plugging/Storage Pits | 658,508 | 570,602 | 520,968 | 693,051 | 617,619 |
| UIC Federal | 499,320 | 442,081 | 533,238 | 682,683 | 1,235,945 |
| Office of Administrative Proceedings | 1,763,403 | 1,613,350 | 1,582,801 | 1,477,985 | 1,464,542 |
| Public Utilities | 2,835,220 | 2,628,141 | 2,857,798 | 2,928,462 | 2,672,842 |
| Office of General Counsel | 1,739,646 | 1,690,294 | 1,640,342 | 1,564,014 | 1,469,646 |
| Transportation | 2,522,857 | 2,401,252 | 2,217,067 | 1,956,409 | 1,929,979 |
| Pipeline Safety | 671,483 | 672,278 | 673,086 | 652,325 | 629,039 |
| Data Processing | 2,343,066 | 2,361,736 | 2,180,486 | 2,519,250 | 2,422,424 |
| Expenditures | \$27,871,816 | \$25,490,831 | \$25,060,640 | \$24,791,643 | \$23,302,589 |
| Reserve for Obligations | 1,531,599 | 1,889,510 | 2,656,522 | 2,578,706 | 2,630,713 |
| Lapsed Funds | | 7 | 8 | 12,323 | 916 |
| Transferred Funds | 900,000 | 700,000 | | | |
| Cash Balance Available | 853,233 | 1,213,363 | 822,748 | 1,753,400 | 1,276,599 |
| TOTAL APPLIED | \$31,156,648 | \$29,293,711 | \$28,539,920 | \$29,136,072 | \$27,210,819 |
| <hr/> <hr/> | | | | | |
| Reserve for Obligations | \$2,589,510 | \$2,656,522 | \$2,578,706 | \$2,630,713 | \$1,944,352 |
| Lapsed Funds | 7 | 8 | 12,323 | 916 | |
| Cash Balance Available | 1,213,363 | 822,748 | 1,753,400 | 1,276,599 | 1,505,132 |
| TOTAL APPLIED | \$29,293,711 | \$28,539,918 | \$29,136,074 | \$27,210,817 | \$24,550,944 |

FY01 Financial Statement—Revenue Sources and Applications

Revenue Sources

The operations of the Corporation Commission are funded by the following fund types:

- **General Revenue:** Funds appropriated by the Legislature each year. These funds are fiscal year specific.
- **Oil & Gas Conservation:** Replaced with general revenue funds in FY98 to provide more stable funding source for Oil and Gas related activities.
- **Revolving Funds:** Payments received from regulated companies for licenses, permits, fees and fines.
- **Public Utility Assessment:** Annual assessments to regulated utilities for the funding of the Public Utility Division and related support costs.
- **Well Plugging:** Funds from oil and gas excise tax on gross production dedicated for plugging abandoned oil and gas wells.
- **Federal Funds:** Grants for federal programs administered by the Corporation Commission.

Revenue Applications

The FY01 total available funds applied reflects the following distribution as a percent of total.

| Expenditure | Total |
|----------------------------------|-------|
| Salaries & Benefits | 69.2% |
| Professional Services | 0.8% |
| Travel | 1.6% |
| Payments to other State Agencies | 4.1% |
| Payments for goods and services | 13.8% |
| Funds reserved for obligations | 4.9% |
| Transferred Funds | 2.9% |
| Cash Balance Available | 2.7% |

Funding and Staffing

| Year | Funding | FTE |
|------|--------------|-----|
| 1992 | \$18,895,760 | 428 |
| 1993 | \$19,775,827 | 428 |
| 1994 | \$21,449,662 | 458 |
| 1995 | \$22,878,549 | 458 |
| 1996 | \$24,550,943 | 458 |
| 1997 | \$27,210,817 | 453 |
| 1998 | \$29,136,074 | 453 |
| 1999 | \$28,539,918 | 453 |
| 2000 | \$29,293,711 | 453 |
| 2001 | \$31,156,648 | 453 |

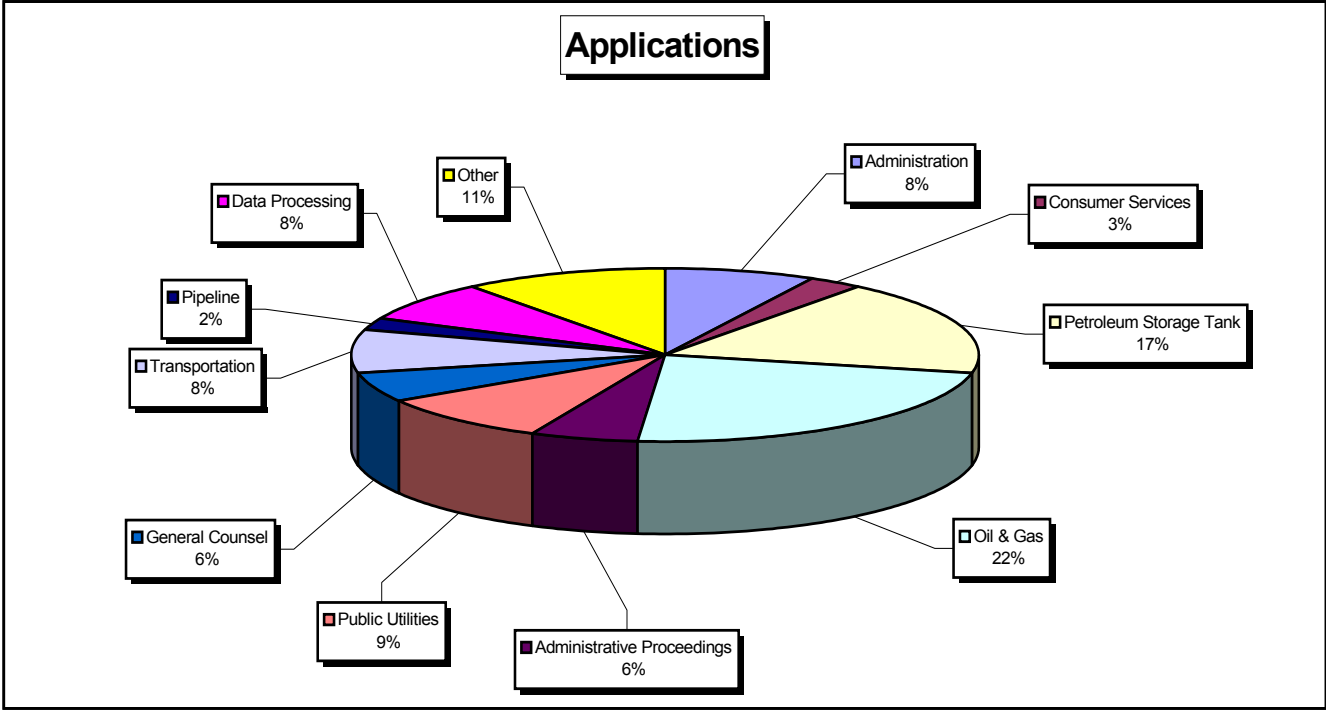
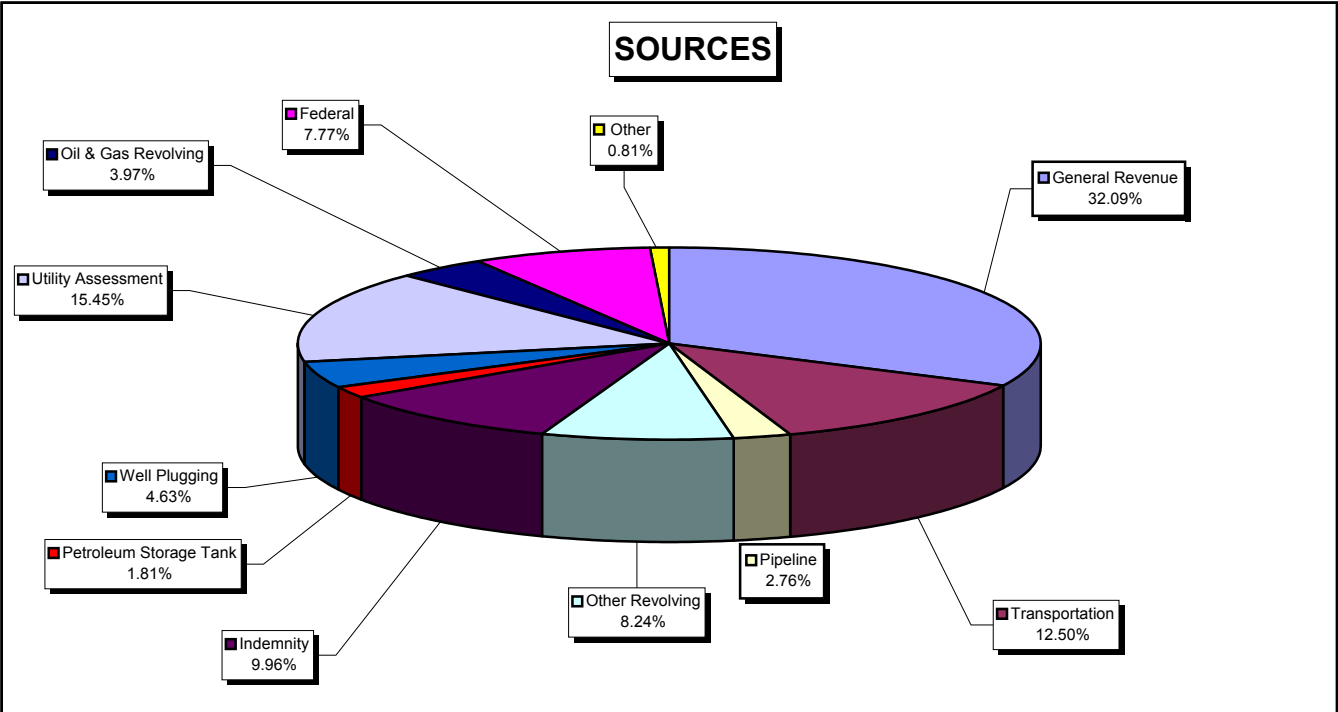
SOURCES

| | | |
|---------------------------------|-------------|--------------|
| General Revenue Fund: | | |
| FY00 Cash Balance | | \$225,299 |
| General Revenue Appropriations | | 9,773,537 |
| Oil & Gas Revolving Fund: | | |
| FY00 Cash Balance | | 291,036 |
| Intent to Drill Fees | 779,800 | |
| Other | 167,148 | |
| | | 946,948 |
| OCC Revolving Fund: | | |
| FY00 Cash Balance | | 810,782 |
| Transportation Fees & Fines | \$3,895,174 | |
| Pipeline Safety Fees | 861,363 | |
| Other | 1,757,047 | |
| | | 6,513,584 |
| Petroleum Storage Tank | | |
| FY00 Cash Balance | | 257,119 |
| Permits | \$170,430 | |
| Other | 135,747 | |
| | | 306,177 |
| Public Utility Assessment Fund: | | |
| FY00 Cash Balance | | 803,771 |
| Assessments | | 4,008,774 |
| Indemnity Fund: | | |
| FY00 Cash Balance | | 22,579 |
| Fund Receipts | | 3,081,674 |
| Well Plugging Fund: | | |
| FY00 Cash Balance | | 415,744 |
| Oil & Gas Excise Tax Receipts | | 1,027,705 |
| Federal Funds: | | |
| FY00 Cash Balance | | 25,201 |
| Federal Funds Received | | 2,395,378 |
| Other Funds: | | |
| FY00 Cash Balance | | 251,340 |
| L.U.S.T. Revolving Fund | | |
| | | \$31,156,648 |

APPLICATIONS

| | AMOUNTS |
|--------------------------------------|--------------|
| Administration | \$2,445,542 |
| Consumer Services Division | 818,460 |
| Petroleum Storage Tank | |
| Administration | 559,876 |
| Claims Processing | 1,818,365 |
| Regulatory | 3,215,544 |
| Oil & Gas Division | 5,980,526 |
| Well Plugging/Storage Pits | 658,508 |
| UIC Federal | 499,320 |
| Office of Administrative Proceedings | 1,763,403 |
| Public Utilities | 2,835,220 |
| Office of General Counsel | 1,739,646 |
| Transportation | 2,522,857 |
| Pipeline Safety | 671,483 |
| Data Processing | 2,343,066 |
| FY 01 EXPENDITURES | \$27,871,816 |
| Reserve for Obligations | 1,531,599 |
| Transferred Funds | 900,000 |
| Cash Balance Available *** | \$853,233 |
| TOTAL APPLIED | \$31,156,648 |

***Included in following fiscal year budget.



OKLAHOMA CORPORATION COMMISSION
Applications Filed, Orders Issued

DOCKET LEGEND: CD-Conservation, PD-Pollution, GD-General Docket, (Discontinued FY95), MC-Motor Carrier, MCC-Motor Carrier Citation, EN-Enforcement, FD-Fuel (Petroleum Storage Tank), FDC-Fuel Docket Citation, TD-Transportation, PUD-Public Utility, RM-Rulemaking, SF-State Funds, CS-Consumer Service, OGC-Oil Gas Citation, *1997 MC/MCC and FD/FDC Separated. 2000 GG-Gas Gathering

FISCAL YEARS—1980-2001

| YEAR | CD | PD | GD | GG | MC | MCC | EN | FD | FDC | TD | PUD | RM | SF | CS | OGC | TOTAL | ORDERS |
|-------|--------|-------|-----|----|-------|-------|-----|-----|-----|-----|-----|----|-----|----|-----|--------|--------|
| 1980 | 8,949 | 594 | 305 | | 5,827 | | | | | | | | | | | 15,675 | 17,136 |
| 1981 | 14,592 | 972 | 441 | | 8,969 | | | | | | | | | | | 24,974 | 23,629 |
| 1982 | 14,544 | 1,143 | 673 | | 7,008 | | | | | | | | | | | 23,368 | 26,174 |
| 1983 | 10,365 | 1,439 | 542 | | 4,765 | | | | | | | | | | | 17,111 | 21,408 |
| 1984 | 12,663 | 1,954 | 636 | | 3,806 | | | | | | | | | | | 19,059 | 21,001 |
| 1985 | 12,805 | 1,084 | 648 | | 3,910 | | | | | | | | | | | 18,447 | 19,425 |
| 1986 | 10,980 | 1,453 | 100 | | 3,954 | | 227 | | | 115 | 200 | 5 | | | | 17,034 | 18,744 |
| 1987 | 8,879 | 1,001 | 17 | | 4,130 | | 175 | | | 101 | 205 | 10 | | | | 14,518 | 14,288 |
| 1988 | 9,559 | 1,162 | 10 | | 4,025 | | 150 | | | 141 | 163 | 13 | | | | 15,223 | 13,474 |
| 1989 | 7,670 | 1,116 | 6 | | 4,745 | | 159 | | | 138 | 172 | 7 | | | | 14,013 | 12,226 |
| 1990 | 4,413 | 1,085 | 7 | | 4,054 | | 181 | | | 140 | 196 | 11 | | | | 10,087 | 8,492 |
| 1991 | 4,957 | 1,139 | 3 | | 3,828 | | 279 | 2 | | 176 | 188 | 10 | | | | 10,582 | 9,875 |
| 1992 | 4,226 | 936 | 5 | | 4,151 | | 160 | 2 | | 138 | 220 | 11 | | | | 9,849 | 8,441 |
| 1993 | 3,834 | 1,099 | 12 | | 6,540 | | 274 | 4 | | 123 | 186 | 19 | | | | 12,091 | 8,258 |
| 1994 | 4,543 | 868 | 5 | | 7,159 | | 297 | 4 | | 121 | 203 | 18 | 52 | | | 13,270 | 9,566 |
| 1995 | 4,760 | 818 | 1 | | 6,653 | | 457 | 272 | | 79 | 237 | 19 | 81 | | | 13,377 | 9,168 |
| 1996 | 4,893 | 898 | 0 | | 7,801 | | 398 | 154 | | 59 | 512 | 23 | 86 | | 29 | 14,853 | 9,395 |
| *1997 | 5,645 | 614 | 0 | | 4,604 | 4,404 | 308 | 24 | 21 | 120 | 516 | 22 | 99 | 3 | 91 | 16,471 | 10,697 |
| 1998 | 5,324 | 574 | 0 | | 5,421 | 5,149 | 432 | 60 | 163 | 92 | 675 | 26 | 111 | 13 | 140 | 18,180 | 10,949 |
| 1999 | 4,789 | 456 | 0 | | 5,937 | 5,968 | 254 | 43 | 56 | 64 | 727 | 23 | 85 | 12 | 43 | 18,457 | 9,081 |
| 2000 | 5,489 | 414 | 0 | 3 | 6,220 | 6,032 | 145 | 111 | 39 | 68 | 736 | 16 | 106 | 18 | 31 | 19,428 | 9,087 |
| 2001 | 6,594 | 409 | 0 | 3 | 6,128 | 6,754 | 259 | 9 | 37 | 42 | 683 | 19 | 131 | 15 | 63 | 21,146 | 11,220 |

CALENDAR YEARS - 1970-2001

| YEAR | CD | PD | GD | GG | MC | MCC | EN | FD | FDC | TD | PUD | RM | SF | CS | OGC | TOTAL | ORDERS |
|------|--------|-------|-----|----|-------|-------|-----|-----|-----|-----|-----|----|-----|----|-----|--------|--------|
| 1970 | 1,615 | 604 | 187 | | 1,310 | | | | | | | | | | | 3,716 | 4,646 |
| 1971 | 1,333 | 779 | 209 | | 2,039 | | | | | | | | | | | 4,360 | 5,427 |
| 1972 | 1,532 | 666 | 271 | | 3,059 | | | | | | | | | | | 5,528 | 6,362 |
| 1973 | 1,924 | 438 | 293 | | 3,405 | | | | | | | | | | | 6,060 | 7,179 |
| 1974 | 2,337 | 415 | 288 | | 4,741 | | | | | | | | | | | 7,781 | 7,780 |
| 1975 | 2,795 | 446 | 256 | | 4,245 | | | | | | | | | | | 7,742 | 7,769 |
| 1976 | 3,849 | 466 | 297 | | 4,157 | | | | | | | | | | | 8,769 | 9,343 |
| 1977 | 5,456 | 522 | 350 | | 3,843 | | | | | | | | | | | 10,171 | 10,673 |
| 1978 | 6,285 | 477 | 272 | | 4,156 | | | | | | | | | | | 11,190 | 11,357 |
| 1979 | 7,362 | 486 | 271 | | 5,107 | | | | | | | | | | | 13,226 | 13,617 |
| 1980 | 13,008 | 742 | 382 | | 6,983 | | | | | | | | | | | 21,115 | 19,940 |
| 1981 | 14,483 | 1,025 | 593 | | 7,606 | | | | | | | | | | | 23,707 | 23,739 |
| 1982 | 12,978 | 1,332 | 513 | | 5,858 | | | | | | | | | | | 20,681 | 25,216 |
| 1983 | 10,589 | 1,605 | 657 | | 4,395 | | | | | | | | | | | 17,246 | 20,686 |
| 1984 | 13,456 | 1,731 | 649 | | 3,732 | | | | | | | | | | | 19,568 | 19,722 |
| 1985 | 13,002 | 1,155 | 401 | | 4,004 | | 90 | | | 53 | 84 | 0 | | | | 18,789 | 20,149 |
| 1986 | 8,320 | 1,157 | 1 | | 4,057 | | 224 | | | 114 | 217 | 9 | | | | 14,099 | 16,293 |
| 1987 | 9,560 | 1,136 | 11 | | 4,116 | | 184 | | | 121 | 179 | 8 | | | | 15,315 | 13,268 |
| 1988 | 8,545 | 1,143 | 8 | | 4,290 | | 122 | | | 131 | 173 | 13 | | | | 14,425 | 13,514 |
| 1989 | 6,517 | 1,076 | 7 | | 4,744 | | 157 | | | 155 | 184 | 7 | | | | 12,847 | 9,826 |
| 1990 | 6,005 | 1,155 | 2 | | 3,948 | | 216 | | | 141 | 195 | 14 | | | | 11,676 | 9,150 |
| 1991 | 4,605 | 1,062 | 5 | | 4,002 | | 248 | 3 | | 180 | 180 | 8 | | | | 10,293 | 9,349 |
| 1992 | 4,084 | 1,035 | 13 | | 4,152 | | 215 | 1 | | 112 | 248 | 16 | | | | 9,876 | 8,511 |
| 1993 | 4,181 | 990 | 4 | | 9,439 | | 276 | 6 | | 129 | 181 | 17 | 15 | | | 15,238 | 8,097 |
| 1994 | 4,691 | 810 | 11 | | 5,432 | | 418 | 203 | | 103 | 225 | 14 | 78 | | | 11,985 | 10,109 |
| 1995 | 4,686 | 806 | 0 | | 6,119 | | 438 | 217 | | 62 | 435 | 24 | 68 | | | 12,855 | 8,426 |
| 1996 | 5,445 | 823 | 0 | | 7,849 | | 336 | 97 | | 88 | 441 | 18 | 100 | 0 | 61 | 15,258 | 9,961 |
| 1997 | 5,457 | 663 | 0 | | 5,278 | 4,802 | 397 | 17 | 35 | 104 | 616 | 29 | 114 | 11 | 115 | 17,638 | 11,447 |
| 1998 | 5,190 | 503 | 0 | | 5,423 | 5,377 | 342 | 82 | 172 | 84 | 693 | 36 | 96 | 10 | 127 | 18,135 | 9,964 |
| 1999 | 4,650 | 380 | 0 | | 6,194 | 6,142 | 133 | 15 | 32 | 80 | 770 | 12 | 91 | 16 | 9 | 18,524 | 8,414 |
| 2000 | 6,069 | 447 | 0 | 5 | 6,342 | 5,732 | 222 | 111 | 52 | 44 | 712 | 15 | 118 | 10 | 57 | 19,936 | 10,232 |
| 2001 | 6,606 | 446 | 0 | 0 | 5,911 | 7,084 | 218 | 6 | 17 | 42 | 661 | 13 | 134 | 28 | 77 | 21,243 | 11,539 |

Administrative Proceedings

The Office of Administrative Proceedings is the court division of the Corporation Commission. The Office of Administrative Proceedings includes administrative law judges and support staff, court reporters, and the Court Clerk's Office. Filings are made and hearings are conducted in the Western Regional Office, Oklahoma City and in the Eastern Regional Office, Tulsa.

Hearings

Most applications requiring Commission action are considered first by administrative law judges who conduct evidentiary hearings; rule on objections, motions and emergencies; interpret and apply law; and make recommendations to the Commissioners for consideration and action. Recommendations made by administrative law judges are appealable to the Commission en banc; however, the Commissioners may refer oral arguments on oil and gas related appeals to an oil and gas referee. Commission orders may be appealed to the Oklahoma Supreme Court.

During FY2001, eleven administrative law judges and one referee conducted 15,825 hearings. Testimony was presented by telephone in 1,860 hearings. To help reduce time and travel expenses for parties and witnesses, testimony and evidence may be presented by phone instead of appearing in person before an administrative law judge. Presentations have been made throughout the State to acquaint the public with the hearing process.

Oil and Gas/Fuel

The Oklahoma City office is staffed by five full time oil and gas administrative law judges, one part time oil and gas administrative law judge and one oil and gas referee. Two oil and gas administrative law judges, one full time and one part-time, are assigned to the Tulsa office. Oil and gas administrative law judges conduct hearings for oil and gas related matters as well as petroleum storage tank and indemnity fund cases.

Transportation

Transportation and railroad cases are heard by one administrative law judge. Filings include applications for certificates of public convenience and necessity for the transportation of household goods,

and for licenses to operate as motor carriers for hire of general commodities. The administrative law judge also hears applications regarding grade crossings and crossing blockage.

Public Utility

Public utility hearings are conducted by one or more administrative law judges. Hearings are held for applications to provide local exchange telephone and long distance telephone service; approval of interconnection agreements, mergers and acquisitions of public utilities; rate cases; territorial boundary disputes; tariff filings and cotton gins.

Court Reporters/Court Clerk Office

Court reporters transcribe hearings and prepare transcripts upon request by case participants. Five full time and four part-time court reporters were employed during FY2001. The Court Clerk's Office is the official repository of Commission documents and is responsible for accepting and processing applications for Corporation Commission action. During FY2001, the Court Clerk's Office processed 21,146 applications and filed 11,220 Commission orders.

ADMINISTRATIVE LAW JUDGE HEARING CASELOAD (FY'95 - FY'01)

| Fiscal Year | O&G Init. | Ref. Appl. | Trans. | Pub. Util. | Fuel Init. | Total Cases |
|-------------|-----------|------------|--------|------------|------------|-------------|
| 1995 | 5,654 | 133 | 3,422 | 405 | 230 | 9,844 |
| 1996 | 5,340 | 106 | 3,772 | 607 | 229 | 10,054 |
| 1997 | 5,118 | 226 | 5,270 | 1,248 | 101 | 11,963 |
| 1998 | 5,297 | 266 | 6,190 | 984 | 389 | 13,126 |
| 1999 | 5,157 | 125 | 6,695 | 893 | 161 | 13,031 |
| 2000 | 5,567 | 106 | 6,148 | 705 | 25 | 12,551 |
| 2001 | 7,084 | 110 | 7,679 | 827 | 126 | 15,825 |

Consumer Services

The Consumer Services Division serves as one of the Corporation Commission's liaisons with the public. The Division investigates and mediates oil and gas - related complaints, consumer complaints regarding regulated utilities and petroleum-related environmental pollution complaints. Field investigations are conducted to ensure service quality of regulated utilities and cleanup of petroleum-related pollution. The Division also maintains records of payments due unlocated mineral owners who have been force pooled by a Commission order. Accomplishments and highlights of each of the Division's departments follow.

The **Public Utilities Complaints and Information Department** assists consumers in the resolution of complaints. It also responds to consumer inquiries and provides information regarding public utility services. During FY01, the cost of natural gas rose dramatically, resulting in the doubling or tripling of consumer's heating bills compared to recent years. This in turn led to a drastic increase number of ratepayer complaints and inquiries received and handled by the department.

In addition to their daily tasks related to the above, staff members worked fervently to make consumers aware of the need to conserve energy and to effectively insulate their homes.

The department continued its efforts to stop the "slamming" (an unauthorized change of a customer's long distance provider) of telephone customers. These efforts included public speaking engagements, brochures, and working with the Commission's Public Information Department, as well as close monitoring of telephone company practices. Effective in November 2000, the OCC adopted the Federal Communications Commission (FCC) "slamming" rules, which gave the state the authority to handle all slamming complaints, both interstate and intrastate. The department settled two contempt actions against a well-known long distance carrier and a nationally known reseller, resulting in total fines of \$65,000.

An investigation was also begun into the quality of service provided by two competitive local exchange carriers. In addition, contempt actions were taken against competitive local exchange carriers that did not respond to E-911 service agencies by updating their E-911 databases.

The department experienced an increase in com-

plaints involving unregulated services, including wireless service, Internet service, and digital subscriber line (DSL) service. These services are provided by both local exchange and inter-exchange companies. While the OCC has no jurisdiction over these services, the department always attempts to educate the public and direct them to the proper entity.

During the fiscal year, CSD's 6 public utility investigators handled 9,943 inquiries and investigated 6,889 complaints. Commission intervention resulted in a savings of \$229,954 for utility customers. Staff mailed 1,751 notices to elderly and/or handicapped electric and natural gas utility customers, alerting them that they were subject to service disconnection for non-payment of their utility bills.

The **Technical Evaluation Department** conducts field investigations to ensure that regulated utilities provide adequate quality of service to their customers, inspects pay telephones for proper signage, provides technical assistance to CSD's consumer complaint investigators and assists with rulemakings for regulated utilities. During the third quarter of FY01, staff assisted the Public Utilities Complaints and Information Department by answering approximately 1,100 overflow calls concerning higher energy bills due to the increased cost of natural gas.

The department also serves as the OCC liaison to the Oklahoma Department of Civil Emergency Management (ODCEM) when natural disasters and other incidents that disrupt utility service occur. Technical Evaluation receives outage reports and monitors progress towards service restoration. Outage reports, along with the utility's plans to restore service, are sent to the ODCEM.

During the fiscal year, the department staff was designated as the agency's Safety Committee. The Committee wrote the agency safety plan, identifying and reporting safety hazards to the building superintendent. It also instituted a safety training program to comply with a legislative mandate and to safeguard Commission employees. During quarterly safety training classes, OCC employees were introduced to a new building evacuation plan to use in the event of severe weather or other emergencies, and were educated

in workplace ergonomics in order to avoid muscular-skeletal injuries.

In FY01, the 4 person department staff performed 270 outside plant equipment tests involving 84 telephone exchanges. Inspections were made of 88 pay telephones or non-coin courtesy phones. Other quality of service field investigations involved 9 water companies, 14 electric meter tests, and 8 gas meter tests. When violations were found, enforcement action of varying degrees was taken to bring the utilities into compliance. Public utility investigations resulted in a savings to consumers of \$23,660.

The **Pollution Response Team (PRT)** takes complaints and answers inquiries over the toll-free Pollution Hotline, assists other OCC divisions in investigating and resolving pollution complaints, provides technical training to OCC personnel and makes pollution-related presentations to industry, school, and civic groups.

In FY01, the 2 person PRT assisted with several pollution investigations jurisdictional to the Oil and Gas Conservation Division and conducted quarterly monitoring of six EPA-designated stream locations to determine their pollution status. The department developed a spill brochure for oil and gas operators and a seismic brochure for surface owners. Staff members served on a rulemaking committee and two state agency environmental education committees. The PRT also coordinated Commission-sponsored awards for science and engineering student fairs on the regional and state levels. In addition to its already-existing environmental award, a new student award was developed for projects related to public utilities.

The PRT handled 92 complaints and responded to 451 inquiries. Its outreach program included presentations on oil production, oil spill cleanup, and spill reporting to 109 groups with a combined attendance of 2,066. The department manned four information booths, reaching 200 people. Staff also conducted four environmental training sessions involving 75 OCC personnel.

The **Oil and Gas Complaints and Information Department** handles inquiries received over the toll-free Royalty Owners Information Hotline and does research as necessary to answer questions and help resolve complaints. The staff serves as a contact between mineral and surface owners and the oil and gas industry. The department accesses much of its oil and gas production data over the

Internet using the Oklahoma Geological Survey's Geo Information System (GIS) for current information. An increase in drilling activity as well as an increase in the prices of crude oil and natural gas resulted in the department handling more inquiries and complaints than in recent years, although it was understaffed for most of the fourth quarter.

Staff represented the Division and the Commission at several functions during the year, including information tables at the annual meeting of the Oklahoma Chapter of the National Association of Royalty Owners, the Oklahoma Mineral Owners Association annual meeting, and the Pawnee County Farm and Ranch Show. The 2 person staff of the department responded to 4,185 inquiries and 567 complaints, with 8% of all contacts being made by personal visits to the CSD office.

The **Mineral Owners Escrow Account (MOEA)** keeps records on money that is owed to unknown or unlocated mineral owners as a result of oil and gas pooling orders. The money is collected from operators by the 2 person MOEA staff and deposited in interest-bearing accounts by the State Treasurer. The funds are held in escrow until the unknown or unlocated mineral owners are found or for a maximum of five years. After five years, unclaimed funds are transferred to the Unclaimed Property Section of the State Treasurer's office.

At the end of FY01, there were 79,224 unlocated mineral owners and \$3,343,247 was held in escrow. Reimbursements of \$180,034 were made to mineral owners by the Unclaimed Property Section after the MOEA verified the amounts due. The MOEA also had 6,233 pooling orders on file and active accounts on 1,347 operators/purchasers.

F Y01 CSD ACTIVITIES

Public Utilities Complaints & Information

Complaints by Industry

| | |
|--------------------|-------|
| Electric Utilities | 2,639 |
| Gas Utilities | 1,652 |
| Telecommunications | 2,437 |
| Water Utilities | 7 |
| Other | 184 |
| Total Complaints | 6,889 |
| Total Inquiries | 9,943 |

Complaints/Information by Category

| | |
|---------------------------------------|-------|
| Elderly/Handicapped Disconnect Notice | 1,751 |
| Disconnection, General | 994 |
| Disputed Bill | 1,169 |
| Billing, Other | 217 |
| Slamming | 321 |
| Service, General | 152 |
| Service Order Delay | 321 |
| Pay Extension Request | 433 |
| Other | 27 |

Technical Evaluation

Testing & Monitoring

| | |
|--|-----|
| Pay Telephones | 88 |
| Number Exchanges Where Tests Conducted | 84 |
| Outside Plant Equipment Tests | 270 |
| Water Company Field Investigations | 9 |
| Electric Meter | 14 |
| Natural Gas Meter | 8 |
| Cotton Gin | 0 |

Oil & Gas Complaints & Information

Complaints by Category

| | |
|---------------------------------|-------|
| Surface | 81 |
| Payment | 216 |
| Legal | 36 |
| Access | 3 |
| Unplugged Wells | 31 |
| Pipelines | 15 |
| Pits | 6 |
| Pollution | 32 |
| Seismic/Geophysical Exploration | 6 |
| Other | 141 |
| Total Complaints | 567 |
| Total Inquiries | 4,185 |

Pollution Response Team

Complaints by Category

| | |
|------------------|-----------|
| Wells | 36 |
| Tanks | 19 |
| Pits | 7 |
| Pipelines | 8 |
| UST/AST | 0 |
| Transportation | 6 |
| Other | <u>16</u> |
| Total Complaints | 92 |
| Total Inquiries | 451 |

Mineral Owners Escrow Account

| | |
|-----------------------------------|-----------|
| Unlocated Mineral Owners | 79,224 |
| Held in Escrow | 3,343,247 |
| Verified Reimbursements | 180,034 |
| Reporting by Operators/Purchasers | 1,347 |
| Orders for Force Pooled Owners | 6,233 |

Data Processing Division

Overview of the Data Processing Division

The mission of the Data Processing Division is to enhance the efficiency and effectiveness of the Commission by providing technically advanced automation tools and services. These services include:

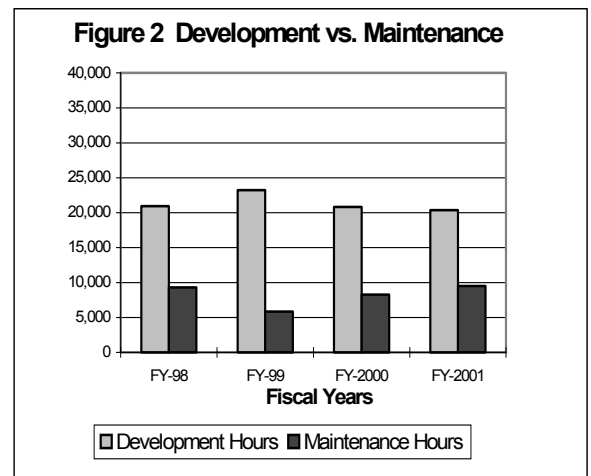
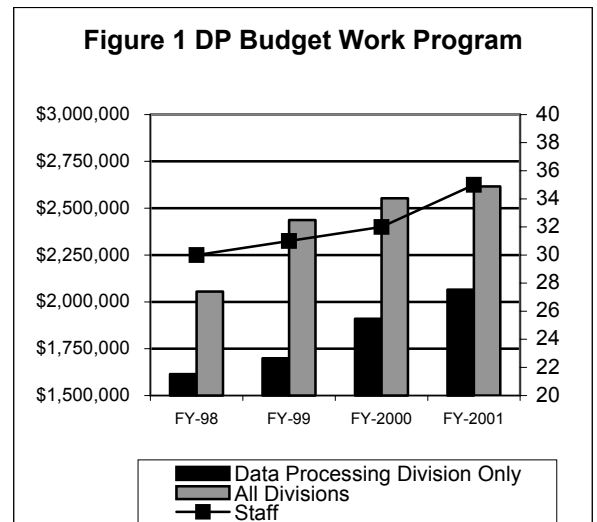
- Development of new and enhancement of existing database application systems
- Disaster recovery, maintenance of production systems, imaging of Commission documents
- Mapping capabilities corresponding to Global Positioning Systems (GPS) and Geographical Information Systems (GIS)
- Video teleconferencing, electronic messaging, and internet capabilities through the Commission's web page
- User support.

The division's goals associated with these services are as follows:

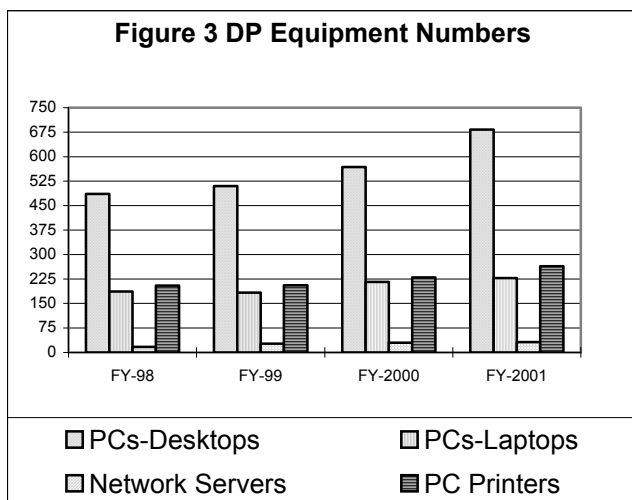
- ◆ Implement new client/server database applications that increase efficiency.
- ◆ Implement Geographical Information Systems (GIS) and the use of Global Positioning Systems (GPS).
- ◆ Implement imaging systems for the Commission that will improve the ability to locate original records, reduce space requirements associated with manual files, and eliminate duplicate files.
- ◆ Increase the effectiveness of the Commission's web page by offering the public the ability to ask questions via the site, and to locate and download information.
- ◆ Educate and equip the Commission's personnel to utilize advanced hardware and software.
- ◆ Coordinate development of all projects with other state agencies where appropriate to eliminate duplicate processing and increase sharing of information.

- ◆ Implement high-speed telecommunication for the internal architecture and between all field and remote offices.
- ◆ Implement the latest versions of computer operating systems and other software to stay current with the industry and ensure maintenance support.
- ◆ Implement video teleconferencing within the remote offices to increase efficiency and improve public access to Commission activities.

In sum, the Commission's need for automation has increased. Most of the growth shown in Figure 1 (DP Budget Work Program) can be attributed to this increased need, as can the growth the amount of time expended towards development projects (Figure 2 – Development vs. Maintenance).



The Commission's computer environment consists of three database minicomputers, three imaging servers, two enterprise local area network (LAN) servers, an internet/web server, a GIS server, and eleven other servers for remote telecommunication, printing, security, and network administration. This computer environment is linked to our Tulsa Office and four Oil and Gas District Offices. The Commission also continues to maintain links with the Office of State Finance, Secretary of State, State Treasurer's Office, and the Tax Commission. Figure 3 (Equipment Numbers) reflects the increase in the Commission's data processing equipment primarily in PC numbers.



Migration to Windows 2000 and Office 2000

The top priority data processing project for the Commission for FY2001 was the migration to Windows 2000 and Office. This project included acquiring 157 new personal computers to replace outdated equipment that was not capable of running the new software. In addition, the project included purchasing 232 upgrade software licenses. In some cases upgraded versions of software tools used in the Commission had to be purchased and installed in order to function under the new operating system software.

Database Application Development/ Reengineering Projects

The following development projects were critical during FY2001, as they comprise the first step towards the Commission's goal of developing Web Applications and Electronic Filing:

Environmental Complaints Reporting System

The scope of this project is to convert the existing system into an Oracle database application. This application will become part of the Oil and Gas Conservation Database and will contain such things as well and operator information, valid legal locations, etc. This new system will be implemented during the second quarter of FY2002.

Oklahoma Production Information System

The scope of this project is to consolidate the WDMS (Well Data Maintenance System), UIC (Underground Injection Control) System, Orders Information, and all other functions of the Oil and Gas Conservation Division into a single Oracle database. These new Oracle screens will be used as the basis for the Web Applications in FY2002, to allow the public to research oil and gas data via the web.

Petroleum Storage Tank Database

The scope of this project is to consolidate the UST (Underground Storage Tank) Database, Indemnity Fund Claims Processing Database, Antifreeze Database, and all other functions of the Petroleum Storage Tank Division into a single Oracle database. The project team has completed the Antifreeze, Licensee, and Leave and Mileage modules. At the end of FY01, testing was underway. The development team has already begun designing the next phase of the project to include Tank Registration, Leak Tracking, and Compliance and Inspections modules.

Public Utility Case/Project Tracking Database

The scope of this project is to provide the Public Utility Division with increased capabilities not currently part of the existing Case Processing System. The PUD staff has submitted all requirements for additional reports and changes. At the end of FY01, the database was being tested and documentation is being prepared.

Transportation Database – Hazardous Waste Module

The scope of this project is to improve the existing Transportation database and enable it to perform the functions needed by the Division in its regulation of hazardous waste materials. The Hazardous Waste module was completed and implemented in June. At the end of FY 01, the development team had devel-

oped updates to the Transportation database Insurance Revocation List and was testing same.

Imaging of Commission Records

Imaging projects continued to increase throughout the fiscal year. Due to support problems and the questionable financial status of the company involved, the decision was made to change to different imaging software. The software was developed in-house by Division staff, saving the Commission approximately \$40,000 in software maintenance and \$800 per personal computer for any new Keyfile license.

Also in FY2001, the Imaging Group received, configured, and placed into service a replacement imaging server for the Petroleum Storage Tank Division (PST) that eliminates the optical jukebox storage unit and speeds up the document retrieval process. This will reduce operating and maintenance expenses further and eliminate the reoccurring costs of \$30 each for the optical disks.

Geographic Information Systems (GIS)

In FY2001, work was undertaken to improve the performance, accessibility, and security of the GIS.

The GIS project team implemented changes so that the data could be easily found and accessed by GIS users. In addition, the team has implemented over 100 digitized data files on the new server. This data consisted of the digital ortho photos of all counties, Oklahoma land grid data, and other data.

Computer Systems Support Services

The computer systems support project team is responsible for maintaining the Commission's entire computer system, as outlined in the beginning of this report, including upgrades, backups, troubleshooting, and network security.

During FY2001 the team upgraded all network servers to Novell's Netware 5.1. As more and more users are connected to the network servers the need for additional disk space became relevant. As we took the two primary network servers down to upgrade the operating system software, we also increased the amount of disk storage. The result was a net increase of over 30% available for continued growth.

Also in FY2001, a new web server for the Commission was installed, as a step toward providing Web

Applications and Electronic Filing the public via the internet.

In an effort to cut costs, the team met with One Net and determined a new strategy for connecting the Oil and Gas district offices to our network. The result was an annual savings of approximately \$26,000 in expenditures. The new circuits were installed and all four of the district offices are using the new telecommunication lines. In addition, the line to the Duncan District Office was changed to a video line that improved the video teleconferencing between that office and the Commission's Oklahoma City office.

Office of General Counsel

The Office of General Counsel provides advocacy and advisory legal services, represents the Corporation Commission and its employees before state and federal courts and advises the Commission concerning legislation, rules and contracts. The Office is comprised of the following sections: Consumer Services, Transportation and Rules; Deliberations; General Law; Oil and Gas Conservation; and Public Utilities.

Deliberations

The Deliberations Section consists of one deputy general counsel. He assists the Commissioners on their dockets for Oil and Gas Conservation and for Fuel Division related cases. He also serves as a referee hearing appeals and other matters at the discretion of the Commissioners. The Section handled 399 matters during FY01.

General Law

The General Law Section is comprised of one deputy general counsel, two senior general counsels, one assistant general counsel and a paralegal. General Law is the litigation section for the Commission and also provides legal advice and counsel to the Commissioners and the Commission divisions on matters such as federal and state regulation, legislation, administrative policy and procedures, contracts, open meetings, personnel matters, ethics policy, environmental law, tort claims, open records and other public law concerns. The Section represents the Commissioners and each division in all litigation in state and federal courts, handles all collections of fines ordered by the agency as well as all legal representation for the Petroleum Storage Tank Division.

The Section works with all agency divisions but does so primarily in support of the Administration Division, assisting with the drafting of contracts and with personnel matters. Staff also handles all Supreme Court appeals. The forums of practice include the Merit Protection Commission, EEOC, Oklahoma Supreme Court, District Courts, Federal Courts and the 10th Circuit.

Defense litigation increased in FY01. Most cases involved matters arising from the Indemnity Fund or the Petroleum Storage Tank Division, as the Division has increased defense litigation in subrogation cases and third-party actions.

In FY01, the Section filed 13 cases with the Oklahoma Supreme Court, and closed 2. 57 cases were filed in district court and in the Tenth Circuit, while 1 was closed.

For further detail on section activity, see the charts

on page 23.

Oil and Gas Conservation

The five person staff of the Oil and Gas Section is comprised of one deputy general counsel and four assistant general counsels. The Section represents the Oil and Gas Conservation Division (Division) in oil and gas enforcement actions and pollution abatement causes as well as appearing for the Conservation Division at other dockets of the Commission. The Section also initiates rulemaking proceedings for the Division and advises the Conservation Director and staff on legal issues.

The Section reported opening 535 new cases during FY01, which includes all enforcement, pollution and conservation matters involving the Division's request that the staff interest be presented through participation in the hearing process. This activity included the filing of 217 oil and gas contempt actions in the fiscal year, of which the Section gained disposition in about 90% of the complaints through respondent compliance with Commission rules. This is the result of the effort to settle cases before the matter goes to court.

There were 120 field citations issued by the Conservation Division, of which approximately 80% were dismissed through the compliance of the respondent. Only 19 final orders imposing a penalty were entered in field citation cases during FY01.

Some pending oil and gas contempt complaints remained unresolved at the end of the year, most under the terms of interim orders which establish time periods for compliance with the possibility of dismissal without penalty.

The Section filed 131 state funds well plugging applications during the period.

The increased rate of Oil and Gas Division activity in FY01 involving the Commission's hearing docket was commensurate with the general increase in exploration and production activity during the fiscal year, spurred by improved commodity prices for oil and gas production.

In addition to the enforcement caseload, the Oil and Gas Section, when necessary, prosecutes pollution abatement causes and monitors and represents the Division's Pollution Abatement staff in Commission applications concerning such matters filed by private parties. The same type of representation occurs on behalf of the Technical Services staff in conservation docket matters filed by private parties. In

both types of cause, members of the Section coordinate technical assistance conferences with the Pollution Abatement staff when needed. During the period, the use of Section attorneys by the Conservation Division staff in such hearings continued to increase, consistent with the trend of recent years. Increasing environmental adjudication at the Commission remained a major factor during FY 2001.

Through its function as legal advisor to the Conservation Director and Division staff, the Section attends Division meetings and participates in review committees in the rulemaking process of the Division. Staff filed Cause RM No. 20000009, which was an amendment process for the Commission's Oil and Gas Conservation rules, Chapter 10, Subchapter 21, pertaining gross production tax exemptions. This amendment process to the Commission's rules was necessitated by the enactment of SB 1048. The Commission, on September 14, 2000, adopted this rulemaking on an emergency and permanent basis.

In early 2001, the Division instituted two rulemaking proceedings, Cause RM Nos. 200100005 and 200100006. Cause RM No. 200100005 was a requirement of SB 549 (1999) insofar as it required the Commission to promulgate a Water Quality Standards Implementation Plan and any necessary rule changes related to same by July 1, 2001. The overall effort involving all impacted agencies was coordinated by the Oklahoma Water Resources Board and a statutory oversight committee comprised of representatives of each environmental agency with jurisdiction over water quality standards enforcement.

Cause RM No. 200100006 was commenced to amend paragraphs in Chapter 10, Subchapter 17, pertaining to the field rules formula provided in regulations for the Red Oak special allocated gas pool in Southeastern Oklahoma. The Commission on March 26, 2001, approved cause RM Nos. 200100005 and 200100006.

In FY01, section staff participated in a working group sponsored by the Mid-Continent Oil and Gas Association, the Oklahoma Independent Petroleum Association, the Bureau of Indian Affairs, and Bureau of Land Management, to consider issues relating to the interaction of state and federal regulation of mineral estates in Oklahoma owned by Native Americans.

For further detail on section activity, see the charts on pages 23 and 24.

Public Utilities

The Public Utilities section consists of one deputy

general counsel, three senior attorneys and four assistant general counsels. They represented the Public Utility Division in hearings before the public utility administrative law judges and the Commission *en banc*.

During FY01, the Public Utility Section collectively spent hundreds of hours in preparation for hearing, the actual hearing itself and in drafting the order regarding Southwestern Bell Telephone Company's ("SWBT") request to enter the interLATA long distance market. (PUD0000560). After the Commission issued an order in September 2000 recommending approval of SWBT's request, SWBT filed an application at the Federal Communications Commission ("FCC") for approval to enter the interstate and interLATA long distance market. In January 2001, the FCC issued an order approving the application of SWBT to provide interstate and interLATA long distance services.

The Commission issued a Notice of Inquiry (PUD 200000580) regarding the existing cotton gin rules and seeking comments from the regulated cotton gins in Oklahoma, as there had been no substantive changes to the cotton gin rules since 1980. After reviewing the comments and conducting technical conferences, the Commission determined that only minor changes to the cotton gin rules were needed. The Commission then initiated a rulemaking and changed the cotton gin rules to allow a less cumbersome process for a gin to become dormant and/or to dismantle.

During the third quarter, the cost for electric and gas utility services escalated rapidly, driven by the sharp increase in the price of natural gas. Causes were filed to investigate the monthly gas costs being passed through to customers by Oklahoma Natural Gas Company (PUD 20010016, 20010088, and 20010128) and the fuel costs being passed through monthly by Oklahoma Gas and Electric Company (PUD 200100061 and 20010127). As a result of the hearings, the Commission determined that recovery of a portion of the gas/fuel costs of Oklahoma Natural Gas Company and Oklahoma Gas and Electric Company should be deferred for a period of time.

High gas costs during the 2000-2001 heating season caused the attorneys in the Public Utilities Section to spend an extensive amount of time during the fourth quarter in preparation for and participation in six Commission *en banc* hearings regarding the fuel-price planning process of four energy utilities providing service in Oklahoma. Staff investigated the gas price flow-through practices of Oklahoma Natural Gas Company (PUD 200100057), and the Commis-

sion took the Cause under advisement after a three-day hearing. Staff also filed four applications; to require ARKLA, a Division of Reliant Energy Resources Corporation (PUD 200100094), Oklahoma Gas & Electric (PUD 200100095), Public Service Company of Oklahoma (PUD 200100096) and Oklahoma Natural Gas Company (PUD 200100097) to inform the Commission regarding their energy procurement practices and risk management strategies, in order to determine what (if any) appropriate methods could be used by the utilities to lessen the impact of energy price volatility upon consumers. As a result of those four causes, the Commission will issue a Notice of Inquiry in FY02 to consider whether hedging would minimize the fuel price volatility for utility customers, and to consider appropriate regulatory treatment of the expenses of hedging.

On March 13, 2001, the Federal Communications Commission granted the Oklahoma Corporation Commission's request for additional authority to implement telephone numbering resource optimization strategies. As a result, additional telephone area codes should not be needed in Oklahoma for several years beyond the originally anticipated date for new area codes. The Commission will continue to evaluate numbering resource optimization strategies during FY02.

During FY01, the Commission adopted amended rules regarding Telecommunication Service Providers (Chapter 55), Resellers (Chapter 56), Cotton Gins (Chapter 75), the Oklahoma Universal Service Fund (Chapter 59) and the Oklahoma E911 Emergency Service Fund (Chapter 61).

For further detail on section activity, see the charts on page 24 and 25.

Consumer Services, Transportation & Rules

The Consumer Services and Transportation Section is comprised of one deputy general counsel and one assistant general counsel, who provided legal assistance to the Consumer Services and Transportation Divisions during FY 01. In addition, the Section is responsible for review of all rulemaking documents prepared by the Commission.

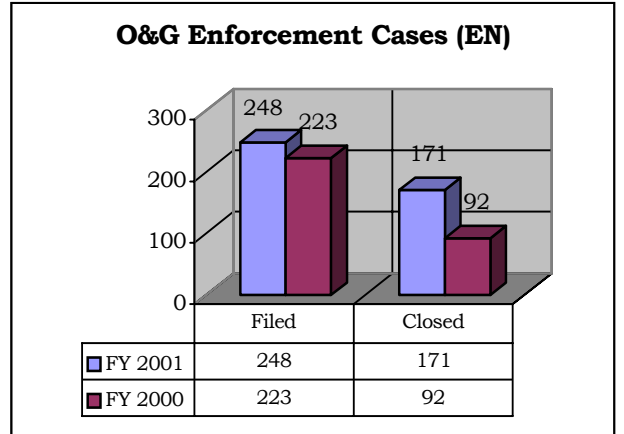
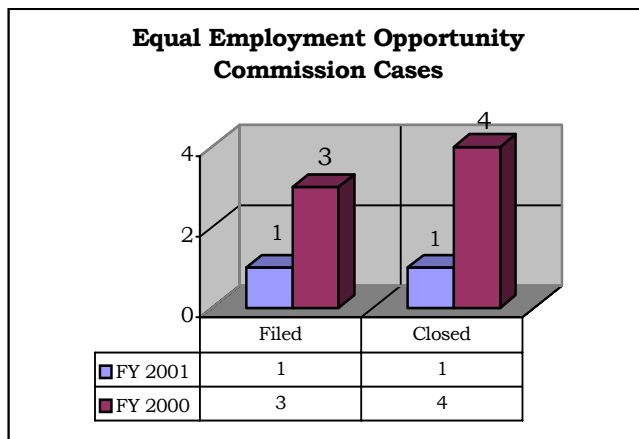
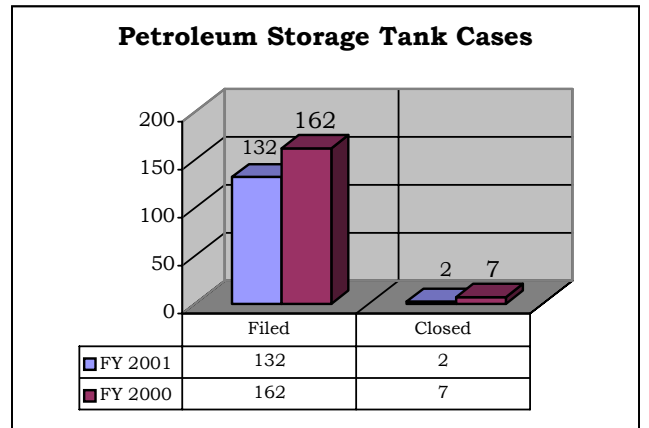
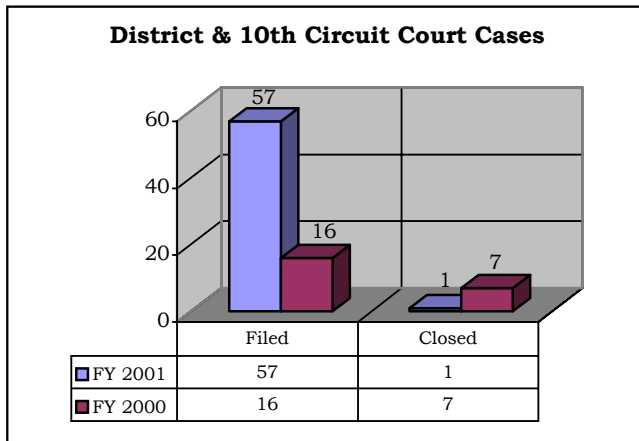
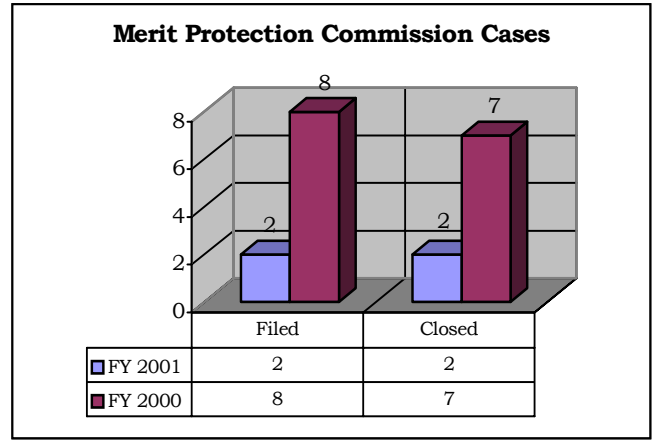
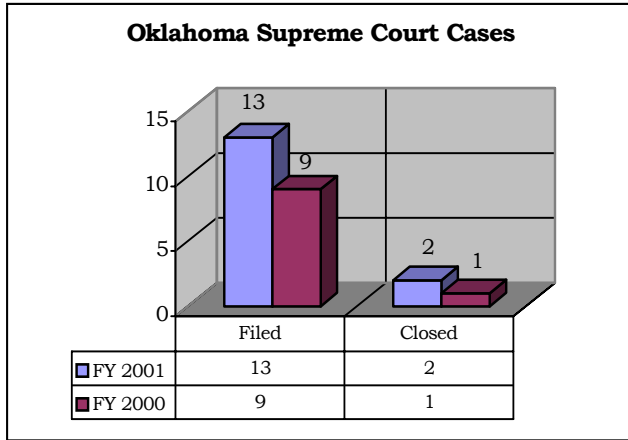
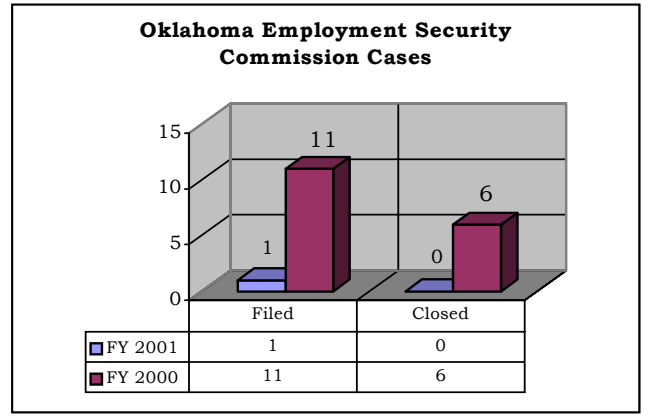
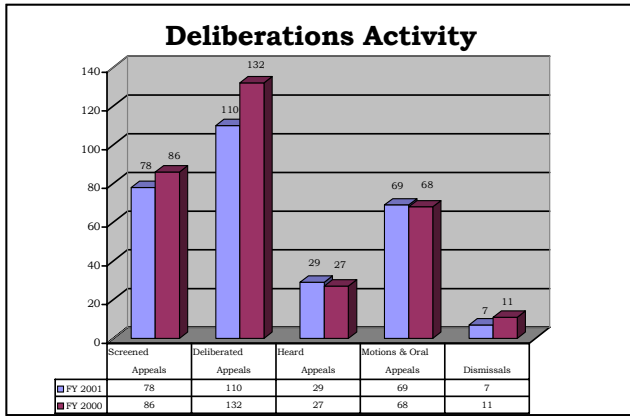
Representing the Consumer Services and Transportation Divisions at administrative hearings continues to be a high priority for staff. During FY01, 39 actions were filed on the Enforcement Docket for motor carrier and railroad matters, and 40 applications were filed on the Transportation Docket, addressing railroad crossings and motor carriers. During FY01, staff also participated in 1,204 license hearings for motor carriers. This last fiscal year, 16

actions were filed on the Consumer Services Docket, including enforcement actions and applications filed on behalf of consumers. This Section also represented the Consumer Services Division in hearings pursuant to applications filed on the Public Utility Docket.

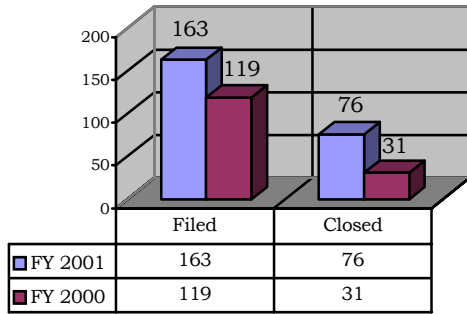
During FY01, this Section actively participated in the field citation program for motor carrier violations. Staff provided advice with regard to the issuance of the citations and prosecuted 6,434 citations for the Transportation Division.

During FY01, the Section initiated rulemakings amending Chapter 5, the Commission's Rules of Practice; Chapter 20, pipeline safety rules; and Chapter 30, motor carrier rules. Staff prepared the necessary documents and represented the Commission at rulemaking meetings and hearings. In addition, staff represented the Consumer Services Division by actively participating in the rulemaking actions filed by the Public Utility Division. The Deputy General Counsel also assisted in the review, submission and approval process of all of the Commission's rulemaking documents in 15 causes during FY01.

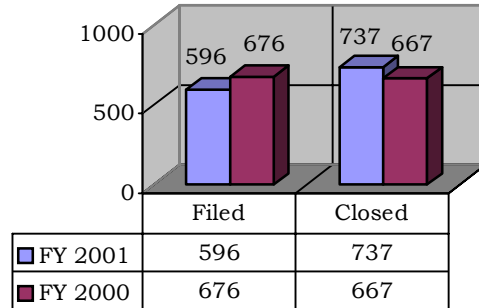
For further detail on section activity, see the chart on page 25.



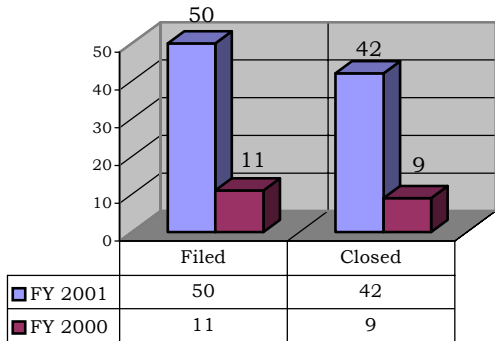
O&G State Fund Cases (SF)



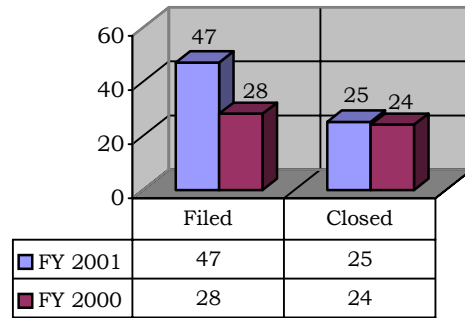
Telecommunications Cases



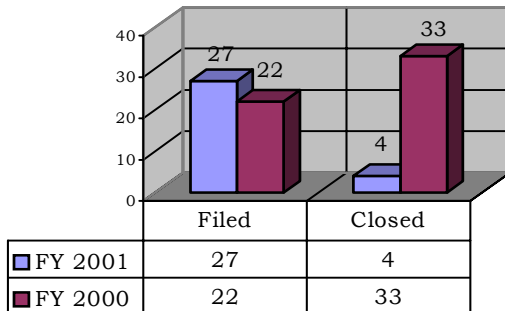
O&G Citations (OGC)



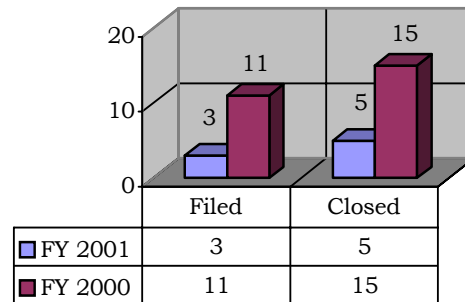
OUSF/E911 Cases



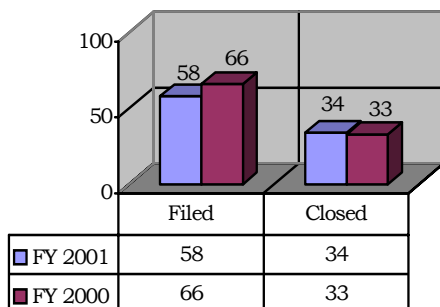
Conservation Cases (CD)



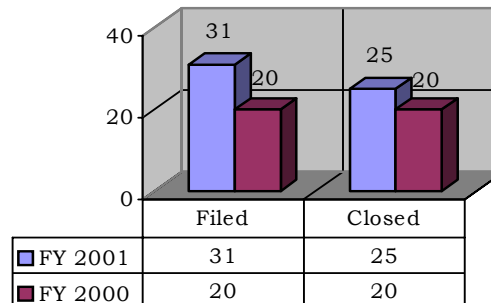
Electric Cases



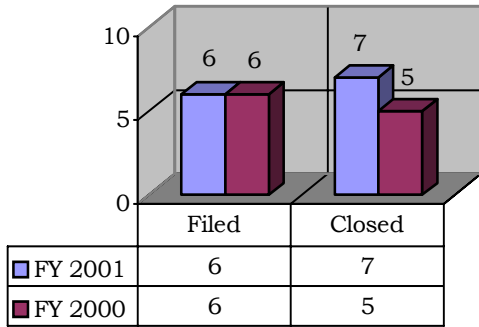
Pollution Cases (PD)



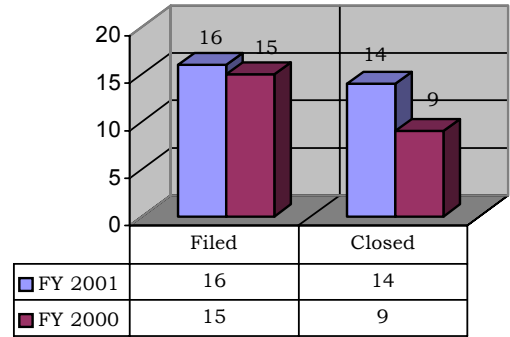
Gas Cases



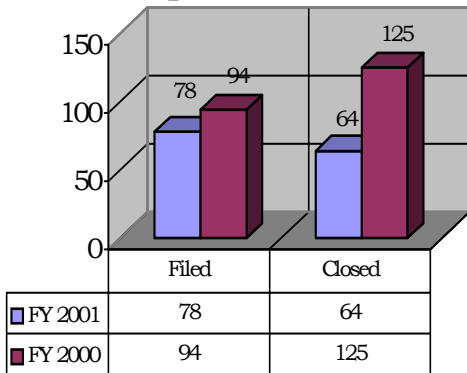
Water & Cotton Gin Cases



Consumer Services Cases



Transportation Cases



Oil and Gas Conservation Division

Since 1915, the statutory responsibility for regulating the oil and gas exploration and production industries of Oklahoma has been delegated to the Corporation Commission. The primary regulatory missions are to:

- 1) Prevent the waste and assure the maximum recovery of hydrocarbons from the state's reservoirs,
- 2) Protect the correlative rights of all entities entitled to share in the proceeds generated from the production and sale of oil and gas,
- 3) Prevent and abate any pollution that may result from oil and gas exploration and production activities.

The Division's mission statement clarifies the division's focus for our people and customers:

"The mission of the division is to balance the rights of all parties, assist the domestic oil and gas industry, protect and preserve the environment, conserve the natural resources, and enforce the applicable rules and statutes of our state with the highest degree of honesty and integrity for the people we serve."

To accomplish this mission, the division is organized into three departments: Technical, Pollution Abatement, and Field Operations. The staff of each consists of technical specialists, field personnel, administrative support, and management staff.

The Division started the year with 142 FTE positions. Out of these, the division had 131 employees with 8 funded and 3 unfunded vacancies (7.75% vacancies). Of the 139 funded positions, 129 were state-funded and 10 were federally-funded through the Underground Injection Control program. Of the 129 state-funded employees, 35 (27%) were assigned to Technical, 10 (8%) assigned to Pollution Abatement, 80 (62%) assigned to Field Operations and four (3%) were assigned to administration. The remaining 10 employees were federally funded, all assigned to the Underground Injection Control Section.

The oil and gas exploration and production industry experienced sharp increases in the value of their produced products during FY-01. The price of oil shot up 14.5% (\$29.40/bbl to \$33.66/bbl weighted monthly average) during the first four months of the fiscal year but ended down 12.5%

overall (\$29.40/bbl to \$25.75/bbl) in June 2001. The price of gas also rose substantially (132%) during the first seven months (\$3.88/Mcf to \$8.99/Mcf weighted monthly average) but likewise ended the fiscal year down 8% (\$3.58/Mcf) in June 2001. During fiscal year 2001, the average price of Oklahoma Sweet crude oil ranged from a low of \$25.75 per barrel in July 2001 to a high of \$33.66 per barrel in October 2000. The value of crude oil increased substantially during this period when compared to FY-00 (\$18.94 and \$30.88 respectively). Crude oil prices averaged \$29.24 during FY-2001 compared to \$24.91 for FY-00. Natural gas prices hit a high of \$8.99 per Mcf (thousand cubic feet) in January 2001 and a low of \$3.58 per Mcf in July 2001.

The brief shortages that caused these price surges also caused an increase in exploration activities in Oklahoma. The average weekly rig count increased from 108 to 160 (48%) and monthly permitting activity increased 36% from 315 to 428. However, in spite of the increase in energy prices and rise in industry activity, Oklahoma produced only 63,851,326 barrels of oil for FY-2001 compared to 70,840,562 barrels of oil for FY-00 and 73,405,423 barrels of oil in FY-99. Oklahoma also produced 1,523,008,887 Mcf of gas during FY-2001 compared to 1,659,705,005 Mcf in FY-00. This was partially caused by the lack of properly trained people to work on drilling and servicing rigs and in the construction sector. The Oil and Gas Conservation Division had preliminary talks with the University of Oklahoma and representatives from the industry on ways to provide training to individuals to work in these fields. The Division also has spoken with the U.S. Department of Labor on the topic of developing safety programs for people entering the workforce in these fields.

The Division was extremely active with the Integrated Petroleum Environmental Consortium (IPEC), through its Industry Advisory Board (IAB). The IAB consists of representatives from industry and regulators from Oklahoma and Arkansas.

IPEC itself is funded through federal grants administered through the University of Tulsa with the mission of developing cost-effective programs and technology to assist smaller companies in maintaining their low producing properties. IPEC held four industry meeting throughout Oklahoma during FY-01

and will substantially increase its outreach during FY-02 through more seminars, the Commission's field staff, and its web services. IPEC also holds an annual national environmental conference and sponsors numerous regulators to attend.

The IAB has developed a series of videos on proper site management and remediation of oil contaminated soils. It also developed a site checklist that is included in an information kit on site maintenance. The kit is provided without charge to industry representatives.

The **Technical Service Department** is organized into five (5) sections: Engineering, Geology, Statistics, Production/Proration and Document Handling. *The mission of the Technical Services Department is to balance the rights of all parties, assist the domestic oil and gas industry, protect and preserve the environment, prevent the waste of the state's natural resources by ensuring compliance with the applicable laws and rules, process applications and permits, and collect, verify, maintain, and disseminate accurate information for the regulated industry, surface and mineral owners, other governmental agencies and the people we serve.*

Applications for Tax Relief (handled by the Engineering section) continue as part of the Commission's liberalization of the qualification criteria. These applications may be filed by the operators of leases that qualify under the provisions enacted under Title 68 O.S., Section 1001. During FY-01, the Engineering Section reviewed and approved 579 tax relief applications, a 25% decrease from FY-00. The decrease is largely due to the average weighted prices of crude oil and natural gas that were \$29.24/barrel and \$5.07/Mcf respectfully during FY-01. When these prices exceed \$30/barrel and \$3.50/Mcf, the tax credits are essentially placed on hold by statute. The division expects more operators applying for these credits as more operations are conducted to bring idle wells back into production and the current prices provided for these products have recently decreased below these thresholds. This section also addressed: 438 commingling and dual completion applications (11% increase); 13 hardship or distressed well status applications; 9 applications for venting or flaring of casinghead gas; 20 applications for the installation of vacuum pumps; 0 Gas Storage applications, and 26 Most Efficient Rate of Production applications.

The Geology Section's FY-01 workload involved 4,765 reviews of surface casing programs, resistivity logs, and cement bond logs to ensure that the state's ground water resources are properly protected from E&P activities. This is a 25% increase in activity in

this area and indicates that exploration activity is increasing. The section also reviewed and/or approved: 672 spacing applications (41% increase); 1,526 location exception applications (40% increase); 1,368 increased density applications (35% increase); and 376 applications for other forms of technical relief (32.5% decrease). Also this section reviewed and approved 5,156 Applications to Drill, Recomplete and Reenter wells, a 46% increase.

The Production and Proration Section has one of the most difficult regulatory tasks at the Commission. It regulates the production from more than 29,000 gas wells and 88,000 oil wells. Vast gas reserves still remain in Oklahoma. There are almost thirty thousand active gas wells in the state but less than one thousand are capable of producing over one million cubic feet per day. The number of capable gas wells declines each year since the industry is not drilling replacement wells. This Section reviewed 3,226 gas well tests, 428 oil well tests, and 21 application for reinstatement of canceled underage. The Section also processed 7,670 gas volume reports containing monthly production information on the nearly 30,000 gas wells in Oklahoma.

The Document Handling Section is responsible for processing and maintaining the bulk of all documents filed with the division. These documents include completion reports, plugging reports, permits to drill, well transfers, certificates of non development, confidential well logs, oil and gas orders of the Commission and other vital documents. One major function of this section is customer service. Surface and mineral owners, oil company representatives, attorneys and other interested parties rely on this section for much of the information concerning individual wells in Oklahoma. This section also reproduces most all the documents filed with the division for several for-profit information vendors marketing Oklahoma data. The section processed 4,974 completion reports; 1,643 Certificates of Records Search (previously known as Certificates of Non-Development), 1,240 plugging reports (a 39% decrease), 4,382 well logs, and 11,835 transfers of operatorship (a 24.75% increase).

The Statistics Section duties include the compilation and presentation of data indicating the findings, trends, analysis and recommendations of the division and ensuring that all operators in the state maintain the statutory surety for plugging wells and remediating sites. The Section notifies operators of lapses in their financial assurance mechanisms. These assurances are essential to the State and required under Title 52 O.S., Section 318.1. During FY-01, 220 operating companies failed to renew their financial assur-

ance and 170 new companies filed financial assurance mechanisms and operator agreements with the State. As of July 31, 2001, the State had 3,197 active operators.

The **Pollution Abatement Department** has two Sections; Underground Injection Control (a federal program) and Waste Management Services. *The mission of the Pollution Abatement Department to protect the environment through enforcement of sound waste management and remediation practices for the domestic oil and gas industry and associated surface and mineral owners.*

The Waste Management Services Section has 10 employees; 8 professionals and 2 administrative support. The Section monitors disposal activities and pollution complaints and oversees the necessary cleanup and restoration efforts. Department personnel review and monitor drilling waste disposal methods, operations and facilities. During FY-01, the Waste Management Services Section made 64 inspections of 15 active commercial pit sites, 35 inspections of 3 inactive commercial pit operations, 66 inspections on 2 active soil farming operations and 49 inspections on 5 inactive commercial sites that were under closure operations. No state funds are available to close any of these potential safety and pollution hazards. The department also oversaw the closure of 2 commercial pit facilities.

The Waste Management Services Section continues to support the efforts of the Oklahoma Energy Resources Board (OERB) in locating historic oil field sites that will qualify for cleanup under this new agency. The OERB remediates sites referred to it by the Corporation Commission. The Pollution Abatement Department is the source of such referrals. The department referred 573 sites to the OERB during FY-01 compared to 254 in FY-00, and took 251 water samples from streams for determination of water quality status.

The UIC Section administers the underground disposal of waste products under the Clean Water Act. The U.S. Environmental Protection Agency (USEPA) provides oversight and some funding for this program. Oklahoma's UIC program has one of the most sophisticated databases and well monitoring programs in the nation and was the first state program to receive primacy for the program from the USEPA. The UIC Section has oversight of 11,360 active wells, 6,300 inactive, unplugged wells, and 6,060 plugged and abandoned injection and disposal wells for a total of 23,720 past and present UIC wells.

During FY-01, the UIC Section approved 75 new non-commercial disposal wells (decrease of 22.68%), 4 commercial disposal wells compared to 3 during FY-00, 89 enhanced recovery injection wells (17.59% de-

crease), and 28 annular injection permits for the disposal of pit fluids (33.33% increase). In addition, 20 applications for amending existing orders were approved. The decrease in filings allowed the UIC Section to reduce the pending applications from 241 at the end of FY-00 to 77 at the end of FY-01, a 68% reduction.

Field Operations is responsible for overseeing all the oil and gas activities within the State of Oklahoma. *It is the mission of the Field Operations Department to assist landowners and the domestic oil and gas industry by ensuring fair, equitable and uniform enforcement of and compliance with the rules of the Commission through investigation, mediation and education in order to protect and preserve the natural resources and the environment of the state of Oklahoma.*

The main objective at the present time is the prevention of pollution. When pollution does occur, the investigation and remediation of such complaints are given first priority. This task has many other facets such as overseeing the plugging of wells, witnessing mechanical integrity tests, running initial tests on newly-drilled wells, conducting UIC inspections and insuring that general housekeeping practices are met. The department is also responsible for identifying and prioritizing what wells need to be plugged using limited state dollars.

The Field Operations department has four (4) field offices being located in Bristow, Kingfisher, Duncan and Ada, respectively. At the beginning of FY-01, these four offices had a combined force of 76: 42 Field Inspectors, three (3) Safety Specialists, eight (8) Field Supervisors, four (4) District Managers, four (4) Assistant Managers, and twelve (12) administrative support employees. An Administrative Assistant, Clerk Typist III and the Manager of Field Operations are assigned to the Oklahoma City office. The department started the year with 5 funded Field Inspector vacancies and lost 6 additional Field Inspectors during the year. The department ended the year with 2 vacancies in its inspection staff.

During FY-01, the department registered 1,580 pollution-related citizen complaints compared to 1,376 in FY-00. The majority of these complaints were resolved directly in the field or at the district level. Staff also worked 783 reported incidents (767 in FY-00) by the industry, found 845 violations (792 in FY-00) through site inspections, and investigated 830 non pollution-related citizen complaints (908 in FY-00).

In FY01, the Division worked with the Interstate Oil and Gas Compact Commission in administering the Field Inspector Certification Examination. All

inspectors with 5 or more years of experience successfully completed the examination. The division plans to continue this program as its inspectors reach the 5-year experience threshold. The field staff spent 104,446 total work hours during FY-01 overseeing well tests and environmental procedures, inspecting well sites, and other necessary tasks. Specifically, the field staff handled 6,317 various complaints and reported incidents (with most resolved at the site or district office level), inspected 58,263 well sites, oversaw 2,266 well pluggings and 3,244 Mechanical Integrity Tests, and made 318 court appearances.

The department issued 120 field citations during FY-01 compared to 80 in FY-00. In keeping with the Division's goal of protecting the environment while encouraging necessary production, 85 of these citations were dismissed in the field when the operator quickly corrected the problem.

The department issued a total of 88 contracts in FY01 to plug 250 wells (111 in FY-00) at a cost of \$830,214 (\$253,577 in FY-00).

Additionally, 98 wells are pending plugging contracts for an estimated cost of \$336,181. This compares to 194 wells and \$414,305 in FY-00. There were 314 additional wells pending orders or the bid process at an estimated cost of \$1,510,236 at the end of FY-01.

It should be noted that with the increase of energy prices during FY 01, it became increasingly difficult to find bidders for all the well-plugging projects put to bid. Many of those equipped to do such work found it more lucrative to work the exploration and production side of the industry, and as a result, a number of well plugging projects were indefinitely delayed because of a lack of bidders.

Rule Making – The division had four rule makings during FY-01. These involved amending the tax incentive rules, implementing a statutory water quality standards program, amending the production allowables in the Red Oak Special Allocated Gas Pool, and implementing de-watering project rules.

Petroleum Storage Tank Division

The Petroleum Storage Tank Division was created by a merger of the Fuel and Indemnity Fund divisions on July 1, 1998. The Division comprises four departments: Accounting, Administrative, Compliance and Inspection, and Technical. The Petroleum Storage Tank Division enforces state and federal regulations and administers certain assistance programs applicable to refined petroleum products' storage, quality and delivery. The Division also administers the Oklahoma Petroleum Storage Tank Release Indemnity Fund, created by the Legislature in 1989 to help storage tank owners meet a federal requirement for \$1 million of liability insurance for damage caused by leaking tanks.

Oklahoma's fuel storage tank program is the only one in the nation that combines the regulatory aspect of remediation, field inspection, and the Indemnity Fund. This structure, made possible by the Storage Tank Advisory Council and the Oklahoma Legislature, enables Oklahoma to efficiently clean up leak sites while at the same time maintaining the solvency of its Indemnity Fund. This is in stark contrast to the plight of many other states, which have seen similar funds bankrupted without meeting site clean-up goals. The structure also paves the way for such innovations as the Pay for Performance system; recognized by the EPA and the Governors Association as the example for other states to follow in reducing costs while encouraging the implementation of more effective cleanup technologies. Many new contracts have been signed under this system, and most importantly, many sites that were stalled in the cleanup phase have been closed.

In addition, the Division works with the EPA, whose Leaking Underground Storage Tank (LUST) Trust Fund provides emergency services and problem resolution to protect public health and safety when suspected leaks from underground storage tanks disrupt vital services and there is no known responsible party, or the responsible party is financially unable to remediate the problem. Funding is provided by the Environmental Protection Agency and administered by the Corporation Commission.

Performance improvements in Oklahoma's petroleum storage tank program this fiscal year were the

result of the cooperative effort of Division staff and the Storage Tank Advisory Council.

At the request of the Environmental Protection Agency, the Division has given numerous presentations to other states on the Oklahoma program. A highlight this year was an additional speaking invitation from the National Governors Association Center for Best Practices to explain Oklahoma's method of paying for environmental cleanup to state and federal Brownfields officials.

The Division was also involved this year in rulemakings for underground petroleum storage tanks (USTs), remediation of leaking storage tank sites, and the process of fuel inspection. The remediation and fuel inspection rules became effective June 11, 2001 and the UST rules became effective July 11, 2001. The main purpose of the rulemakings was to clarify the rules, make them more concise, and update them to accurately reflect the work done by fuel inspectors and consultants in the field. The UST rules now contain specific subsections for each type of facility regulated, mirroring the format of the AST rules that became effective July 15, 2000. Regulated tank facilities include marinas, airports, bulk plants, fleet and commercial facilities and retail facilities, and the rules recognize the different purposes and potential hazards of each.

The Accounting Department administers the Indemnity Fund, reimbursing a portion of the costs of cleaning water and soil contaminated by leaking petroleum storage tanks. Money for reimbursement comes from a 1 cent-per-gallon assessment on gasoline, diesel fuel and blending materials at the distributor level.

Programs such as Pay for Performance (which pays for environmental results rather than time and materials and requires consultants to guarantee their work), TankRACER (a software program which calculates reasonable cleanup costs), and the Oklahoma Risk-Based Corrective Action (ORBCA) process are allowing the Division to continue to clean up the environment in a cost-effective manner. Use of the pre-approval process has streamlined operations of the Division and eliminated nearly all disallowances.

In FY01, the Indemnity Fund paid out \$24,812,450

in reimbursements on 1,949 claims. The statutes that govern the Indemnity Fund's operations require that initial claims be paid within 90 days and supplemental claims within 30 days. During FY01, the average time for payment of an initial claim was 53.39 days, and the average time for settling supplemental claims was 17.24 days. The Indemnity Fund claims processing cost for FY01 was 7.1 cents per dollar paid out.

The Indemnity Fund closed the fiscal year with an unencumbered balance of \$1.9 million, about \$15.5 million under the authorized maintenance level of nearly \$17.4 million. During the year, the Fund received \$26,594,401 from assessments and earned \$1,052,865 by investing reserve revenue in interest-bearing cash management accounts.

The Administrative Department provides support functions, including imaging files, supporting the technical staff, registering storage tanks and maintaining all files pertaining to petroleum storage tanks. During FY01, 259 underground storage tanks and 27 aboveground storage tanks were removed from service. Concurrently, 169 underground storage tanks and 26 aboveground storage tanks were installed. At the end of the fiscal year, 10,681 underground storage tanks and 3,020 aboveground storage tanks were registered.

The Compliance and Inspection Department protects the public from inferior motor fuels and antifreeze through inspections and product testing. During FY01, 21 fuel specialists performed 5,527 service station inspections. They checked 32,428 pump calibrations, finding 2,193 pumps out of calibration, and checked 6,952 tanks for water and other contaminants. In addition, fuel specialists conducted 2,935 annual inspections of underground storage tanks and investigated 319 complaints regarding gasoline purchased by consumers.

The Technical Department's duties and responsibilities include regulating the remediation process, and determining what costs may be reimbursed by the Petroleum Storage Tank Indemnity Fund. In addition, department staffers are involved in research with the EPA to find more effective ways of cleaning up contaminated sites.

The use of Pay for Performance contracts and the TankRACER program to establish reasonable remediation costs in FY01 has allowed the technical staff to spend less time making calculations and more

time in the field examining remediation systems and progress of a given clean-up operation.

The Technical Department continues to work with EPA on several cleanup projects using innovative technology, with the goal of further improving remediation operations. These include research and field experimentation involving new and innovative technological ideas and remediation system designs, such as the use of chemical reactions, oxygen, surfactants, and electrolysis.

Public Utility Division

The Public Utility Division provides technical support and policy analysis to the Commission in: (1) Assuring reliable public utility services at the lowest reasonable cost; (2) Assuring open, workable, competitive markets in the transition to competition; and (3) Fulfilling constitutional and statutory obligations. In this role, Staff develops and presents objective, independently researched, fact-based findings and recommendations to the Commission.

The Division's primary duties and responsibilities include:

- Administering and enforcing Commission rules, regulations, and Orders concerning public utilities (electric, gas, water, cotton gin, and telecommunications service providers).
- Investigating, researching, and analyzing relevant regulatory data to make recommendations on matters such as establishment of rates or rate adjustments; changes in terms and conditions of service; establishment of, or changes to, public utility rules, regulations or policies; transfer of utility ownership; and utility competition implementation.
- Monitoring fuel procurement procedures of each utility, including the price paid by same for fuel.
- Assisting the Consumer Services Division in seeking resolution of service and payment problems of utility customers.

SUMMARY OF ACTIVITIES

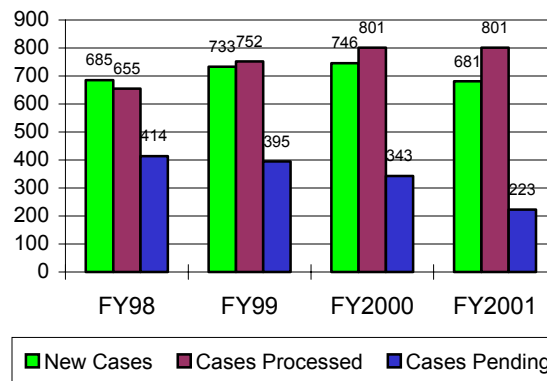
During fiscal year 2001, the Public Utility Division continued to analyze significant changes in the way utility services are delivered to customers. These efforts supported the Commission's endorsement of more competition and customer choice in utility services. Work continued on assisting in the formulation and review of major legislation relating to telecommunications and electric utility competition and restructuring. The staff also performed its traditional regulatory responsibilities.

CASELOAD

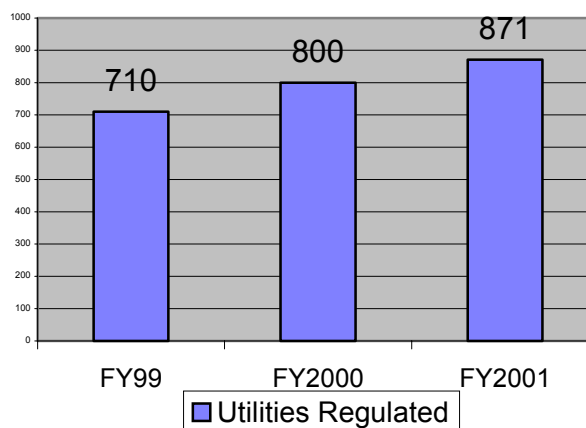
The Public Utility Division began FY2001 with 343 pending cases. During the year, 681 new cases were filed. Of these 1,024 cases, 801 were processed to completion, leaving 223 cases pending at fiscal year's end. A caseload comparison for the last four years is depicted in the following chart.

REGULATED UTILITIES

Caseload Comparison



Utilities Regulated



At the end of FY2001, the division was responsible for regulatory activity associated with 871 public utilities: 34 electric, 13 gas, 20 water, 33 cotton gins, 45 incumbent local exchange carriers, 132 competitive local exchange carriers, 41 interexchange carriers, 350 resellers, 106 operator service providers, 91 payphone providers, and 6 competitive access providers.

RULEMAKINGS

Cotton Gins: A Notice of Inquiry was issued in RM #200000012 on December 6, 2000 for consideration of possible changes to Oklahoma statutes and rules related to the regulation of cotton gins. The Governor approved submitted rule changes, and the revised rules became effective July 1, 2001.

Telecommunications: Notices of Proposed Rulemakings (RM #200000014 and RM #200000015) were issued January 16, 2001 to amend Chapter 55 and Chapter 56 rules governing local exchange carriers, interexchange telecommunications carriers, and resellers. The amended rules included many requirements benefiting consumers. These included increased consumer protection against “slamming” (the unauthorized changing of a customer’s long distance provider), and more “customer friendly” utility billing and customer service practices.

The proposed rules were adopted and submitted for gubernatorial approval and legislative review on March 30, 2001. The Governor approved the submitted rule changes, and the revised rules became effective July 1, 2001.

Oklahoma Universal Service Fund (OUSF): Two Notices of Proposed Rulemakings were filed January 18, 2001 (RM #200000016 and RM #200000017) to amend certain rules governing the operations and administration of the OUSF and the E-911 Fund. Revisions were sought to improve efficiencies and provide further clarification of the rules. The proposed rules were adopted and submitted for gubernatorial approval and legislative review on March 30, 2001. The Governor approved the submitted rule changes, and the revised rules became effective July 1, 2001.

TELECOMMUNICATIONS

MAJOR CASE ACTIVITY

Southwestern Bell Telephone Company (SWBT) - 271 Compliance: An application was filed (PUD #970000560) by the Attorney General, et.al., to explore Southwestern Bell Telephone Company’s (SWBT) compliance with Section 271(c) of the Telecommunications Act of 1996. An Interim Order was issued August 18, 1999, finding that SWBT had met eight (8) of Federal Communications Commission’s (FCC) fourteen (14) point competitive checklist items and recommending certain actions be taken by SWBT.

A Final Order was issued September 28, 2000, recommending approval to the FCC of SWBT's entry into Oklahoma's long distance market, provided

SWBT made the identified changes to the O2A and implemented reporting requirements. Subsequently, SBC and its subsidiaries filed application with the FCC for authorization to provide statewide long distance service in Oklahoma and Kansas. As set forth by the FCC's procedural schedule, OCC's initial and reply comments were filed. Meetings were held with FCC Staff and the Department of Justice and on Oklahoma’s recommendation. On January 19, 2001 the FCC approved SWBT's application to provide in-region interLATA services to Oklahoma, effective March 7, 2001.

Southwestern Bell Telephone Company (SWBT) - Performance Standards: Staff initiated a docket (PUD #990000131) on March 24, 1999, to determine appropriate performance standards with regard to competitive local exchange issues applicable to SWBT in Oklahoma. This cause was linked to SWBT's 271 application (PUD #970000560) for interLATA operation, in that it sought to measure how SWBT provides services to Competitive Local Exchange Companies (CLECs) through the use of its Operations Support Systems (OSS).

Under the SBC/Ameritech Order, the FCC requires SWBT to submit certain performance data that measures the quality of service provided to CLECs.

An Interim Order was issued July 14, 2000 determining what performance measures were appropriate at the time of the hearing. The Interim Order identified issues which were beyond the scope of the proceedings and included a provision that upon adoption of an Order by Texas of changes to the Texas Version 1.6 as a result of its six-month review, any party could file a request to review the appropriateness of adopting such changes in Oklahoma. Texas subsequently adopted SWBT's Version 1.7. Monitoring of performance measures (as it related to the 271 proceeding versus this cause) was addressed in OCC's reply comments to the FCC in December 2000. This cause was continuing in nature throughout the fiscal year in that evidence needed to be presented by SWBT on the remaining issues contemplated by the Interim Order.

Southwestern Bell Telephone Company (SWBT) - 272 Compliance: Section 272(d) of the Federal Telecommunications Act of 1996 requires a biennial audit of compliance of Bell Operating Companies with the separate subsidiary requirements for their long distance service. PUD Staff, as part of the State Biennial Oversight Team, participated in such an audit of

SWBT during the fiscal year.

IntraLATA Equal Access: On May 14, 1998, twenty-nine (29) ILECs filed an application (PUD #980000263) requesting approval to offer 1+ IntraLATA Equal Access to all IXC's. An Interim Order was issued approving all aspects of the implementation of 1+IntraLATA Equal Access by agreement of parties, with the exception of the issue of billing arrangements between applicants with access tandems and SWBT. A Supplemental Interim Order was subsequently issued on April 20, 2000 based on agreement of the parties, setting forth the procedure and methodology for such billing arrangements. Pursuant to a hearing on legal briefs, an Order was issued October 25, 2000 denying AT&T Wireless Services' motion to modify the Supplemental Interim Order.

The Applicants filed a motion on January 26, 2001, which was approved, to establish a procedural schedule intended to bring this matter to hearing prior to May 1, 2001 in accordance with the Supplemental Interim Order. Subsequently, the Applicants filed a joint motion requesting the Commission to suspend the procedural schedule and issue a Final Order approving the agreement of the companies, which sought to modify certain provisions of the Supplemental Interim Order. A merit hearing was held on March 15, 2001, which resulted in a final Order being drafted at fiscal year end which resolved the remaining issues.

IntraLATA Dialing Parity: Pursuant to Staff's application on March 23, 1999 to implement the dialing parity provisions of the Federal Telecommunications Act of 1996, implementation plans for IntraLATA equal access were filed and approved for several ILECs. Subsequently, five ILECs filed an application (PUD #990000649) on November 1, 1999, for suspension of implementation of such dialing parity provisions. Specifically, the applicants requested modification of their intraLATA equal access plans until there was a bona fide request from another carrier exchange to provide customer choice of other optional toll calling plans. A Final Order was issued September 21, 2000, granting the suspension with certain conditions.

SBC/Ameritech Merger Compliance - SWBT DSL Loop Conditioning: Pursuant to the FCC's approval of the SBC/Ameritech merger, SWBT is required to "file cost studies and proposed rates for conditioning xDSL (Digital Subscriber Line) loops in the SBC/Ameritech service area" with each state commission. As a result, SWBT filed an application on March 31,

2000, (PUD #200000192) seeking approval of non-recurring rates for conditioning unbundled DSL capable loops for use in all applicable interconnection agreements between CLECs and SWBT in Oklahoma. Subsequent hearings led to a stay of the proceeding while SWBT gathered certain information from performing actual loop conditioning for the purpose of providing DSL services. SWBT was also required to file monthly reports from such analysis during this period. A merit hearing was held on May 30, 2001. A final order setting loop rates is scheduled to be issued in July 2001.

SWBT'S Collocation Tariff: On March 20, 2000, CCCOK, Inc. (d/b/a Connect!) filed an application (PUD 200000169) requesting that the Commission order SWBT to provide physical collocation for interconnection and access to unbundled network elements on rates, terms and conditions that are just, reasonable and non-discriminatory. On May 9, 2000, SWBT filed an application (PUD #200000249) to introduce terms, conditions and rates for the provisioning of physical and virtual collocation. Both applications were consolidated. The Commission issued an order adopting interim rates, subject to true-up.

In its Order issued September 28, 2000 addressing SWBT's application in (PUD#970000560), the Commission determined that in order to encourage competition in the local exchange market, a procedural schedule should be established in the instant cause permitting an expeditious determination of permanent rates regarding collocation.

The cause was bifurcated on February 14, 2001 in order to address the issues of terms & conditions, cost models, and cost inputs separately. A Stipulation and Agreement on the first phase regarding terms & conditions was approved by Commission Order on April 10, 2001. Proceedings were ongoing in May & June of 2001 addressing the other two phases of this docket.

SWBT Alternative Regulation Filings: Pursuant to the approval of SWBT's request for alternative regulation and its subsequent decision to opt into the Oklahoma Plan, the following cases were filed:

- SWBT filed an application (PUD #200000634) on November 9, 2000, seeking to adjust rates in Basket 3 (Emerging Competitive and Optional Services) in accordance with the Oklahoma Plan and OAC 165:55-5-66(3). This allowed for Basket 3 prices to be increased a maximum of 5% in any 12 month period. SWBT estimated that the

change in total annualized revenue would be an increase of \$6,355,754. Due to the large volume of cost data to review and the limited time frame, an Order was issued on December 6 suspending the cause. After staff completed its review of the cost studies, a final Order was issued December 21, 2000 approving tariff revisions.

- SWBT filed a cause (PUD #200100054) on January 31, 2001, requesting a determination that some Basket 3 services (Emerging Competitive and Optional Services) met the "competitive test" as defined in the Oklahoma Plan in OAC 165:55-1-4. A merit hearing was held April 25, 2001 in which a stipulation resolving all outstanding issues was presented. On May 2, 2001 a final Order was issued determining that some Basic Three Services in certain SWBT exchanges, specifically, Oklahoma City Metropolitan, Tulsa Metropolitan, and Harrah, met the competitive test. The Order further stated that nothing in the Stipulation or Order precluded SWBT from seeking to have other exchanges, addressed in a separate application.
- SWBT filed an application (PUD #200100277) seeking a waiver of OAC 165:55-5-10.1 and proposing to reclassify Directory Assistance Service and National Directory Assistance Service from the noncompetitive Basket 3 Services' category to the competitive Basket 4 Services' category. Data Requests were issued, and the Staff filed a motion for a procedural schedule, which was set for hearing on July 12, 2001.
- SWBT filed an application (PUD #200100276) on June 1, 2001, to increase the charge for processing a returned check from \$10.00 to \$25.00. Neither the Application nor SWBT's response to Staff's first data request provided adequate justification for the increase. On Staff's recommendation, the cause was suspended and set for hearing on August 30, 2001.

Enhanced Lifeline And Expanded Link Up Program: Applications (PUD #200000453 and PUD #200000455) were filed in August, 2000, by local exchange carriers (LECs) in Oklahoma requesting approval for implementation of the enhanced Lifeline and expanded Link up programs as set forth in the FCC's Order issued June 30, 2000. The FCC Order mandated eligible telecommunications carriers to make available no later than October 1, 2000 to qualifying low-income individuals living on former or present tribal lands, the following:

- An Enhanced Lifeline credit, up to an additional \$25 per month.
- Expanded Link Up support of up to an additional \$70 per customer.

The FCC Order also broadened its Lifeline and Link Up consumer qualifications criteria for low-income consumers on Tribal lands to include four additional programs. The enhanced Lifeline and expanded Link-up would allow qualified subscribers to obtain residential basic telephone service for \$1.00.

The OCC issued its Order on August 31, 2000, granting the relief requested by Oklahoma Eligible Telecommunications Carriers identified in this docket, and ordered submission of revised tariffs prior to October 1, 2000. The Commission also determined that OUSF monies could not be expended for this purpose, and ordered the submission of federal compliance and reimbursement documents.

Southwestern Bell Long Distance: On March 7, 2001 Southwestern Bell Communications Services Inc., doing business as Southwestern Bell Long Distance (SBLD) filed an application (PUD #200100125) requesting a determination that its service offering providing interexchange services within the State of Oklahoma (with the exception of directory assistance and operator services, both of which are excepted in the rule) is competitive pursuant to the Chapter 55 Telecommunications Services Rules. The OCC had previously determined that SBLD met three of the five rule requirements. A merit hearing was held on May 17, 2001, and the ALJ issued a Report on May 29, 2001, finding that SBLD had met the other two criteria necessary for effective competition determination. A final Order was issued on June 12, 2001, adopting the ALJ recommendation and approving the application.

Interconnection Agreements and Arbitrations: In order for new local telephone competitors to provide local exchange service, an interconnection agreement must be executed with the incumbent local exchange company. If the new local telephone competitor and incumbent are not able to agree on terms, the Federal Telecommunications Act requires the Oklahoma Corporation Commission to arbitrate the interconnection agreement and implement terms. During the fiscal year, final Orders approving interconnection and resale agreements were issued in 49 cases, and 45 new causes for interconnection agreements were filed. Three arbitration cases were filed during the fiscal year. Two of these cases were resolved and the remaining case continues to be arbi-

trated.

Area Code Relief: NeuStar, Inc., the North American Numbering Plan Administrator (NANPA), in its role as the neutral third party NPA relief Planner for Oklahoma, filed applications (PUD #200000597 and PUD #200000599) on October 26, and October 27, 2000 respectively, on behalf the Oklahoma telecommunications industry. These filings were based upon NANPA's projections that, absent NPA relief, the supply of central office codes for both the 405 and 918 NPA would exhaust during the third quarter of 2002. Technical Conferences were held and a hearing was scheduled for September 13, 2001.

Staff continued to review various number conservation plans. As a result of OCC's petition to the FCC, Oklahoma received interim authority to implement 1000 block number pooling trials.

NATURAL GAS

MAJOR CASE ACTIVITY

Oklahoma Natural Gas (ONG) Rate Review Follow-Up: During the processing of ONG's last formal rate review (PUD #980000683), various Commission Orders were issued containing several future ONG reporting requirements. Staff completed follow-up reviews on seven major issue areas and reported the results to Commissioners on May 24, 2001.

ONG's Gas Purchase Contract With Dynamic Energy Resources, Inc.: Staff filed an application on February 4, 2000, (PUD #200000073) for the purpose of opening a specific proceeding to review the gas purchase contract between ONG and Dynamic Energy Resources entered into on November 9, 1993, which was subsequently assigned to Enogex, Inc. and Duke Energy Field Services, Inc. Staff sought to identify whether any, all, or some portion of the annual volumes covered by this contract should, on a prospective basis, continue to be taken and whether the pass through of the cost of such gas to ratepayers should be capped at the Commission determined level. Hearings on the merits were held on July 7, July 8, and July 20, 2000. A final Order was issued on November 30, 2000 which: (1) Dismissed the application and relief sought therein; and (2) Advised Staff to conduct a prudency review in another application of the contracts at the time of their signing to deter-

mine what portions of the costs should be justly and reasonably paid by Oklahoma ratepayers.

Enogex Complaint – ONG Competitive Bidding: Enogex, Inc., filed an application (PUD #200000339) on June 27, 2000, seeking a determination from the Commission regarding the evaluation by ONG with regard to the competitive bids received in the Spring of 2000 for upstream transmission services to cities served by ONG. Enogex's complaint stated, among other things, that ONG's competitive bidding process for upstream transmission service was in violation of Commission rules. The Commission subsequently issued an Order on August 30, 2000, determining it had jurisdiction to resolve two questions raised by the Enogex complaint: (1) The correctness of ONG's evaluation of the bids against the benchmark, and (2) Whether ONG improperly favored its affiliate.

A modified procedural schedule was ordered on October 13, and a merit hearing was scheduled to begin on November 1, 2000. However, the Administrative Law Judge (ALJ) recommended in a motions hearing on October 31, 2000 that the cause be dismissed as a result of a party's disclosure of confidential benchmark information contained in Staff's testimony. The applicant appealed the ALJ's ruling and the Commission en banc heard arguments on November 8, 2000. The Commission denied the motions to dismiss via an Order issued June 18, 2001 and remanded the cause to the ALJ to conduct a full evidentiary hearing on the merits of the application.

Oklahoma Natural Gas Company (ONG): ONG filed an application (PUD #200000099) on February 16, 2000 requesting an extension of time to implement a downstream unbundling plan as required by the OCC gas rules. A Stipulation of parties was presented in a merit hearing on November 30, 2000. The Stipulation modified the dates for upstream unbundling and required ONG to give written disclosure advising customers entering contracts that extend beyond the in-service date of the potential for additional service options. It also restricted ONG from providing its affiliates access to its distribution system prior to the in-service date. A final Order was issued on January 4, 2001.

ONG filed another application (PUD #200100111) on March 2, 2001, seeking: (1) Direction from the OCC with respect to the timing and scope of downstream unbundling; and (2) A waiver from certain gas rules to give the Company flexibility in the implementation of full downstream unbundling. The Commission issued an Order on January 4, 2001, modify-

ing the schedule for implementation of ONG's downstream unbundling plan and a merit hearing before the Commission en banc was held on April 4, 2001. An Order was issued April 25, 2001, modifying the previously established downstream unbundling dates as follows: (1) Application due date April 1, 2004; (2) Commission Order date September 1, 2004; and (3) A downstream implementation date of June 1, 2005. The Order also acknowledged that pursuant to the tax provisions of the gas rules, the dates set forth by the Order may be modified by the Legislature or OCC as necessary to address any potential tax implications.

Reliant Energy ARKLA (ARKLA): ARKLA filed an application (PUD #200100176) on April 6, 2001, requesting a modification of date provisions previously set forth in an Order issued January 11, 2000 for the purpose of implementing downstream unbundling. During the merit hearing on April 19, 2000 the ALJ took judicial notice of the aforementioned PUD #200100111 record, as the Commission en banc had noted that a cause would be filed by ARKLA to request the same relief as was requested by ONG. An Order was issued April 25, 2001, modifying the downstream unbundling dates and recognizing potential tax implications as set forth in the above-referenced ONG Order.

Public Gas Company & ONG: A joint application was filed on September 18, 2000 (PUD #200000515) in which Public Gas Company sought Commission approval to sell and transfer to ONG certain natural gas distribution assets located in and around the towns of Blocker and Enterprise servicing approximately 385 residential and commercial customers. A final Order was issued December 21, 2000 approving the acquisition.

OTHER ACTIVITY

OCC Natural Gas Summit: PUD Staff prepared a presentation for and coordinated an OCC Gas Summit on September 13, 2000. Members of the Oklahoma Legislature, industry officials, consumer groups, and other interested parties were invited to participate in the Gas Summit. The following topics were addressed:

- Discussion of Upward Price Trend for Natural Gas.
- Discussion of ways to Help Customers Deal with the Upward Price Trend for Natural Gas.

- Staff Recommendations.
- Utility Responses to Staff Questions.

Staff also coordinated a second Gas Summit Meeting held on September 27, 2000, to discuss the details of the supply problem and how natural gas production in Oklahoma could be maximized.

ELECTRIC

RESTRUCTURING ISSUES

Electric Restructuring: During the fiscal year, Staff was involved in the following electric restructuring activities:

- Held an Electric Restructuring Round Table Meeting on October 19, 2000, with the "Stakeholders" group to discuss electric restructuring. The purpose of the meeting was to share ideas, dialogue, and proposed research questions regarding price and general economic impacts of electric restructuring.
- Reviewed and monitored all proposed legislation amending the Electric Restructuring Act of 1997 and provided analysis and reports.

Oak Ridge National Laboratory (ORNL) Electric Restructuring Report: ORNL was contracted by OCC to conduct a two-phase study on the status of the Oklahoma and regional electric systems and the potential economic impact of electric restructuring in Oklahoma. Working with Staff, the ORNL developed and presented the first phase report entitled "The Potential Economic Impact of Electricity Restructuring in the State of Oklahoma" to the Commissioners in PUD Deliberations on June 7, 2001. The first phase of the study built an econometric model specifically designed for Oklahoma to take a closer look at the energy market in the near-term using recent 1999 figures on generation and customer demand.

Phase II, which was scheduled to be presented to Commissioners and the Electric Restructuring Advisory Group in November 2001, would provide a longer-term analysis reaching ten years into the future by incorporating the potential for new generation resources, transmission, and customer responses.

MAJOR CASE ACTIVITY

OG&E 1999 Fuel And Competitive Bidding Review: Staff filed an application (PUD #200000022)

on January 12, 2000, to review the 1999 fuel adjustment clause (FAC) of OG&E, pursuant to the Stipulation in (PUD #960000116) wherein OG&E agreed to initiate a competitive bidding process for natural gas transportation service. Enogex was awarded the competitive bid to provide gas transportation service to OG&E's generation stations.

On July 19, 2000, a Joint Stipulation between Staff, OG&E, the Oklahoma Attorney General (AG), and the Oklahoma Industrial Electric Consumers (OIEC) was filed which: (1) Provided for implementation of credits for consumers; (2) Resolved the Staff's review of the competitive bidding process; and (3) Retained the review of OG&E's fuel cost recoveries for 1999. A Final Order was issued approving the Joint Stipulation resulting in a rate reduction of approximately 2.7 million dollars and providing a credit rider to ratepayers of \$.000138 per kilowatt-hour. This customer credit amounted to an average of 13.8 cents per month for the average residential customer's bill and will be effective for the July, 2001 billing cycle.

AEP/PSO/CSW Merger: PSO filed an application (PUD #200100023) on January 18, 2001, requesting modification of a provision in OCC's previous order issued May 17, 1999, which approved the merger of American Electric Power (AEP) and PSO's parent Central and Southwest Corporation (CSW). The modification was requested to reflect a change in knowledge of conditions, which occurred when PSO, the Staff, and the AG attempted to implement the Mitigation Margin credit. A Stipulation of parties was presented in a merit hearing on May 14, 2001. A final Order was issued on May 23, 2001 approving the stipulation that would provide PSO customers combined rate credits and cost reductions of \$9,124,255. Of that amount \$4,253,255 would be credited through PSO's FAC beginning June 1, 2001 as an offset to the cost of natural gas and coals. The remaining \$4,871,000 would be a rate reduction credit to PSO's customers. The credit was the second part of a five-step reduction approved by the OCC in 1999, which totaled nearly \$28 million.

Electric System Planning Report (ESPR): As a result of a statutory requirement to conduct an assessment of Oklahoma's statewide future electrical generation requirements, on December 11, 2000 staff filed an application (PUD #200000685) to require electric entities to provide the necessary information. Letters were mailed to the major electric service providers requesting information related to generation capacity, peak demand, and reserve margins. A confidentiality agreement was placed into effect to pro-

tect the data gathered, if requested by the provider. At the request of the provider. At fiscal year's end, staff was reviewing the data provided.

FUEL RELATED AUDITS/REVIEWS

MAJOR CASE ACTIVITY

Monthly Fuel/Gas Adjustment Clause Reviews:

Due to the record high natural gas prices experienced by the nation which resulted in ratepayers receiving unprecedented high gas bills, Staff filed the following causes to protect the public during the energy crisis by providing for the direct review of fuel and purchased gas adjustments filings by the Commission en banc.

- **ONG & Reliant Energy Arkla January PGA:** (PUD #200100016) was filed on January 16, 2001 requesting a review of the process by which PUD analyzes the purchased gas adjustment (PGA) clauses for ONG and Reliant Energy Arkla (Arkla) each month. The parties filed testimony and public hearings were conducted on January 31, and February 1, 2001, regarding the January PGA filings.

ONG requested a PGA increase to \$7.88 per dekatherm (DTH), plus an additional \$.39 for deferred fuel recovery, resulting in a total gas cost to residential customers for January usage of \$8.27. An Order regarding ONG was issued February 6, 2001 determining:

1. There would be no change in the existing process by which the Commission reviewed the monthly PGA filings of ONG with the caveat that the Commission may set future PGA filings for hearing.
2. ONG could pass through no more than \$6.75 per DTH, plus an additional \$.39 associated with the recovery of the deferred fuel account for February billings.
3. The monthly arithmetic review did not address the appropriateness of contracts underlying gas costs flowed through the PGA of ONG.
4. ONG could not increase the percentage of line loss passed through their Line Loss and Gas Purchase O&M Rider above 1.66% until further order of the Commission.

An Order regarding Arkla was issued on Feb-

ruary 6, 2001, determining that Arkla had explained the recent changes in the cost of gas flowed through Arkla's PGA to the satisfaction of the Commission. Further, the same determinations were reached as described in number 1 and 3 of the ONG order referenced above.

- **OG&E January FAC (Fuel Adjustment Clause):** PUD #200100061 was filed February 2, 2001 requesting a review of the monthly fuel adjustment process for OG&E. The parties filed testimony, and a public hearing was held March 2, 2001 to consider the January FAC costs. OG&E filed its fuel cost letter on February 23, 2001 exercising its option under its fuel cost adjustment tariff to recover an additional 5.84 mils during the March 2001 billing period. A Stipulation was filed on March 1, 2001 in which OG&E accepted staff's proposal to recover 3 mils less during the March 2001 billing cycle and seek recovery of the remaining unrecovered January 2001 fuel costs during subsequent billing periods. A final Order was issued March 6, 2001, approving the Stipulation.
- **ONG February PGA:** PUD #200100088 was filed February 15, 2001, requesting a review of the February, 2001 PGA filing of ONG. The parties filed testimony, and a public hearing was held before the Commission en banc on March 2, 2001. An Order was issued March 6, 2001 determining that ONG could pass through no more than \$6.58 per DTH. ONG had sought \$7.14 DTH. The \$6.58 included an \$0.87 deferred monthly fuel cost, which represented 1/12 of the total cost.
- **OG&E March Fuel Adjustment Clause (FAC):** PUD #200100127 was filed on March 8, 2001 requesting a review of the March, 2001 FAC filing of OG&E. The parties filed testimony, and a public hearing commenced before the Commission en banc on March 30, 2001. An order was issued April 2, 2001 approving a \$0.000453 per kilowatt-hour decrease from the previous month's filed FAC charge. The Commission did not make any determination with regard to the appropriateness of OG&E's fuel cost.
- **ONG March Purchased Gas Adjustment (PGA) Clause:** PUD #200100128 was filed on March 8, 2001 requesting a review of the March 2001, PGA filing of ONG. The parties filed testimony, and a public hearing commenced before the Commission en banc on March 30, 2001. An Order was issued April 2, 2001, denying ONG's request to

accelerate recovery of the deferred balance in that the operation of its deferred gas cost balance. Further, it was determined that ONG could pass through its PGA no more than \$6.82 per DTH. ONG had sought \$7.09 DTH.

Annual Fuel Reviews: The following activity occurred in applications filed by Staff to review and monitor the fuel, purchased power, and purchased gas adjustment clauses of all public utilities:

- A merit hearing was held March 26, 2001, on Staff's application (PUD #990000271) covering the billing period commencing January 1, to December 31, 1999. A final Order was issued April 3, 2001 accepting the fuel adjustment clause for each company for the audit year 1999, with the exception of ONG, which was addressed in another docket.
- The review process continued on Staff's application (PUD #200100118) covering the billing period commencing January 1, to December 31, 2000.

Energy Procurement/Risk Management Planning: Staff filed four separate applications (PUD #200000094 through PUD #200000097) requesting that ARKLA, OG&E, PSO, and ONG be required to inform the Commission as to the energy procurement practices and risk management strategies they planned to utilize in the future to mitigate the effects of volatile energy prices upon consumers. A technical conference was held on March 23, 2001, and multiple discovery proceedings were held during the fiscal year. Staff filed a technical brief in each of the causes on April 30, 2001. The hearings before the Commission en banc commenced June 4, and concluded June 6, 2001.

ONG Least Cost Procurement Practices: Staff filed an application (PUD #200100057) on February 1, 2001 to review those aspects of ONG's PGA clause related to least cost procurement practices and related affiliate transactions. The application requested a determination regarding whether ONG's gas procurement practices during the December 1999-January 2001 high cost winter months were consistent with rules requiring least cost procurement practices and whether the actions of ONG resulted in fair, just and reasonable costs being borne by ONG's consumers. A consultant was retained to assist the Staff in this

review. Staff filed an amended application on March 7, 2001, naming ONEOK, the parent company of ONG, and a number of subsidiaries that are affiliates of ONG.

Staff initiated contempt proceedings on May 8, 2001 in another docket (EN #200100102) to address ONEOK's failure to comply with a Commission Order. The referenced Order required the production of information responsive to the data requests of Staff in the (PUD #200100057) docket.

A Commission Order was issued on May 25, 2001 prohibiting the introduction at the interim hearing of any evidence or information not provided to staff in an issued data request. An amended procedural schedule was ordered May 9, 2001, and the cause was set for hearing regarding a temporary/interim order. Based on agreement of parties, an Order was issued May 18, 2001 establishing an applicable standard of review as to whether the gas procurement practices at issue in the cause were fair, just, and reasonable based upon the facts and circumstances at the time such decisions were made.

Staff filed testimony on May 11 and June 11, 2001, and an interim hearing was held before the Commission en banc from June 25 through June 27, 2001. Arguments were scheduled to be heard before the Commission en banc on July 11, 2001.

PSO Fuel Cost Adjustment Rider: PSO filed an application (PUD #200100098) on February 23, 2001, requesting that Service Level Fuel Cost Adjustment Factors be determined on a quarterly rather than the currently approved semi-annual basis indicating the change would potentially avoid large over-or-under collection of fuel costs. A final Order was issued on June 18, 2001 amending PSO's Fuel Cost Adjustment Rider as proposed in the application, allowing quarterly adjustments to begin in the months of November, February, May, and August.

WATER

RATE INCREASES

RJR Water Company: RJR Water Company filed an application (PUD #200000357) for a general rate change on August 2, 2000. Staff filed testimony, and a hearing was held on February 22, 2001. A final Order was issued March 1, 2001 approving the revenue requirement and rate schedules proposed by Staff.

Lake Region Electric Development Corp (LREDC): LREDC filed an application (PUD #200000327) for a rate increase on August 11, 2000 stating its inability to recover the cost of providing

service through current rates with the acquisition of Tenkiller Water Company. A final Order was issued March 5, 2001 approving the Joint Stipulation of a rate increase of \$471,000 to be spread among the various rate classes.

Tenkiller Water Company: Tenkiller Water Company filed a general rate change application (PUD #200100283) on June 26, 2001. Staff began its review of the Company's filing for compliance with the Commission's rules.

FEDERAL/REGIONAL ACTIVITY

SOUTHWEST POWER POOL (SPP)

SPP Regional Transportation Organization (RTO) Status: During the fiscal year, Staff monitored and participated in several meetings regarding the SPP's filing with FERC (Federal Energy Regulatory Commission) seeking recognition as an RTO. The following actions occurred:

- FERC issued an Order on March 28, 2001 finding that SPP's filing was deficient in three areas: (1) Scope and configuration; (2) The required Section 203 filings pursuant to the Federal Power Act; and, (3) Details of the proposed Entergy Transco partnership under the RTO.
- SPP filed its response to the above referenced FERC Order on May 25, 2001 and submitted further evidence. OCC filed comments on June 18, 2001.
- FERC issued an Order on June 27, 2001 related to SPP's RTO filing responding to requests for rehearing and clarification of certain aspects as they related to SPP's RTO filing.

FUND ADMINISTRATION

OKLAHOMA UNIVERSAL SERVICE FUND (OUSF)

Requests For Funding: Thirty-one (31) OUSF Applications requesting funding were filed during the fiscal year. Twenty-eight (28) Commission Orders were signed approving Funds for disbursement in the amount of \$9,617,524.00.

Use Of Funds Review: Two (2) OUSF Contributors' Audits were conducted to determine the accuracy their revenue reports for OUSF contributions, and appropriateness of their recovery rate. They were concluded as follows:

1. SWBT (Southwestern Bell Telephone) will report their entire directory- related revenues in order to calculate the contribution made to OUSF starting July 2001.
2. Southwestern Bell Wireless will reduce the recovery rates starting July 2001 in order to have no over-recovery of their contributions.

2001 for their review and dissemination to the public. The purpose of the educational packet was to enable consumers to make educated choices regarding telecommunication services. Staff also worked with the General Administrator to make the information available on the OCC website.

Certificates Revoked: Five (5) Commission Orders were issued revoking carriers' Certificates of Convenience and Necessity (CCN) for not complying with OUSF reporting requirements.

OKLAHOMA EMERGENCY 911 SERVICE FUND

E-911 Requests For Funding: For the filing period from July 1, 2000 through June 30, of 2001 final Orders were issued in 12 pending cases, disbursing funds in the amount of \$845,281.35. There were 17 new applications for funding filed during the fiscal year.

E-911 Outreach Projects: Fund Administration participated in meetings during the fiscal year conducted by:

- Association of Central Oklahoma Government (ACOG)
- AKLANENA conference in Tahlequah, Oklahoma
- Central Oklahoma Economic Development District Meeting (COEDD)
- Northern Oklahoma Development Authority (NODA)

Fund Administration outreach has recently focused on regional systems, which would include two or more counties working with one system.

PUBLIC UTILITY FEE ASSESSMENT FUND

Fee Assessment Fund Activities: Fee Assessment Data Requests were mailed to the utilities to gather the data needed to calculate the Fee Assessment for fiscal year 2002. The database for the utilities was accordingly updated.

MISCELLANEOUS ACTIVITIES

Consumer Education: Consumer education information was developed regarding telecommunications, electric, and gas issues. Staff presented a Telecommunications' Consumer Education Package to the Commissioners in PUD Deliberations on May 9,

Transportation Division

The Transportation Division administers licensing and certification of for-hire and private motor carriers that operate within and through Oklahoma; enforces motor carrier licensing requirements, federal motor carrier safety standards, certain federal and state railroad regulations, and pipeline safety regulations. Oklahoma has more than 5,100 for-hire and private motor carriers licensed to operate in intrastate commerce; 22 railroads that operate in Oklahoma and almost 40,000 miles of natural gas and hazardous liquid pipelines within this State.

The Division's operations are carried out through seven departments: **Requirements; Administrative Operations; Railroad; Pipeline Safety; Safety Support; Safety, Pollution Abatement, Consumer Assistance and Education (SPACE); and Enforcement.**

The **Requirements Department** issues intrastate licenses, household goods certificates and interstate registration certificates for all for-hire and private motor carriers regulated by the Corporation Commission. This department also administers the Single State Registration System (SSRS) for Oklahoma-domiciled interstate motor carriers and carriers domiciled in non-participating states that operate their largest number of vehicles in Oklahoma. All for-hire and private intrastate motor carriers must comply with insurance, safety, and size and weight standards to obtain and hold licenses or certificates to operate in Oklahoma. Oklahoma has seventy-three carriers that hold certificates to transport household goods intrastate.

Oklahoma is the registration state for more than 2,955 interstate regulated motor carriers under the SSRS. For those carriers, the department issued more than 3,184 registration receipts. 3,815 interstate exempt carriers are registered with this Commission with 222 certificates issued this year. 215 interstate and intrastate carriers lost their authorization to operate due to a lack of proper liability insurance on file.

In FY01, the Requirements Department received more than 8,600 applications for authorization or changes in authorization to operate in or through Oklahoma. The Requirements Department also approved almost 10,000 insurance documents and issued 231 permits for transportation of deleterious substances, such as saltwater and other oilfield wastes.

The **Administrative Operations Department** is responsible for tracking railroad, motor carrier, household goods and transportation-related pollution complaints; issuing rule books, maintaining household

goods carriers' annual reports, offers support to all other Departments of the Division; and, maintains all administrative records for the Division.

The **Railroad Department** consists of two employees who monitor the operations of twenty-two Oklahoma railroads for compliance with state and federal safety regulations. The Railroad Department investigates and makes recommendations on railroad crossing openings, closings, and crossing signal upgrades. 74 railroad case filings and fifteen annual reports from railroad companies were filed this year.

The **Safety, Pollution Abatement, Customer assistance, and Enforcement (SPACE) Department** audits household goods carriers for compliance with prescribed rates and tariffs and reviews intrastate for-hire and private motor carriers for compliance with size and weight regulations and the federal motor carrier safety regulations. Two SPACE staff members are CLEET certified and also perform enforcement officer duties.

Twenty-one staff members are certified to perform Commercial Vehicle Safety Alliance (CVSA) Level 1 vehicle inspections. They include four SPACE agents, fifteen enforcement personnel, and two safety support administrative staff. Ten of the field personnel are also certified to perform hazardous materials and cargo tank/bulk packaging inspections.

The Division performed almost 1,400 vehicle inspections during FY01. CVSA certifications enable personnel to declare a commercial motor vehicle "Out of Service" if critical safety violations are discovered. In keeping with this authority, 409 vehicles and 69 drivers were placed out of service by OCC staff in FY01.

Four staff members successfully completed federally certified compliance review training and are receiving on-the-job training.

Educational contacts and vehicle inspections are conducted as part of the licensing procedure to help new intrastate for-hire and private motor carriers in complying with the federal motor carrier safety regulations as well as ensuring carriers are operating safe equipment. 647 new carrier educational contacts were made in conjunction with the vehicle inspections either in a location convenient for the applicant or during a hearing process.

Also, the Division made presentations to motor carriers and various associations covering Commission jurisdiction over licensing and permitting, enforcement, rate audits and tariff filings, and vehicle

and driver safety inspections in conjunction with new carrier applications.

The **Enforcement Department** includes seventeen field-based enforcement officers and four field supervisors who seek for-hire and private motor carrier compliance with state statutes and Commission rules governing for-hire and private motor carriers.

In FY01, motor carrier enforcement officers performed 41,494 vehicle checks resulting in the issuance of 6,749 citations and more than 1,200 warnings.

187 motor carrier and railroad complaints were investigated by the SPACE, Enforcement and Railroad Departments with 31 enforcement cases filed as a result of complaint investigations or other information.

The **Safety Support Department** offers support to all motor carrier safety-related functions; issues US-DOT numbers to intrastate only carriers; and, issues hazardous waste registrations and permits. 510 US-DOT numbers were issued to intrastate carriers during FY01, bringing the total to 2,683 since the program's inception.

During the 2000 legislative session, the OCC was designated to register and permit hazardous waste transporters in accordance with the procedures of the Alliance for Uniform HazMat Transportation Procedures. The Alliance currently includes seven states operating a base state registration/permitting program. The Department credentialed thirty-five carriers during FY01, bringing the total number of Alliance credentialed carriers to more than 4,500.

The 12-person **Pipeline Safety Department** has inspection and enforcement authority over more than 268 natural gas operators and thirteen hazardous liquid operators. These companies operate approximately 36,500 miles of natural gas pipelines and 3,400 miles of hazardous liquid pipelines.

The Pipeline Safety program is funded through an assessment levied against the pipeline operators and a 40% federal reimbursement. The U.S. Department of Transportation's Southwest Regional Office of Pipeline Safety oversees and supports the program.

In FY01, the department spent 868.5 man-days inspecting 241 of 268 intrastate natural gas pipeline operators and nine of 14 hazardous liquid pipeline operators. The department spent nineteen man-days investigating natural gas pipeline incidents and ten man-days investigating hazardous liquid pipeline incidents. Inspectors identified 1,150 natural gas and nineteen hazardous liquid pipeline safety rule viola-

tions, consisting mainly of improper manual and records maintenance.

During FY01, the statute governing the authority of the Commission to promulgate pipeline safety rules was changed. Effective July 1, 2000, the Commission was prohibited from promulgating pipeline safety rules that were more stringent than federal pipeline safety regulations.

During the last part of FY01, the department identified a total of 117 master meter operators operating in the state. The department conducted three master meter seminars and one natural gas and a hazardous liquid seminar during FY01. In total, 300 employees of the master meter, natural gas and hazardous liquid operations personnel were given training on how to comply with State and Federal Pipeline Safety Regulations.