

Alaska State Legislature

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120 4th Street
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House Bill 328 – Sectional Analysis

Section 1

Adds new statute: AS 42.05.387 – Strategic Investment Surcharge

This section creates a new statute allowing regulated public utilities to request approval from the Regulatory Commission of Alaska (RCA) for a strategic investment surcharge to recover certain infrastructure-related costs outside of a general rate case.

Subsection (a) – Authorization

Allows a public utility to request commission approval of a strategic investment surcharge to recover costs for qualifying investments that are not otherwise recoverable through existing rates.

Subsection (b) – Regulatory Framework & Eligible Cost Recovery

Requires the commission to adopt regulations establishing an application and approval process. Authorizes recovery through the surcharge of:

1. A return on construction work in progress (CWIP) and operating expenses accrued during construction;
2. A return on rate base and operating expenses once the investment is complete and in service; and
3. Construction expenses that will not be capitalized.

Subsection (c) – Calculation Requirements

Requires regulations to specify how the surcharge is calculated, including:

- Use of year-end CWIP data (not averaged balances);
- Use of the long-term debt cost approved in the utility's most recent general rate case or formula rate filing;
- Use of the return on equity from the most recent general rate case;
- Limiting capital structure during construction to long-term debt and equity only;
- Using the approved capital structure and overall rate of return once the investment is in service.

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Subsection (d) – Notice Requirement

Requires a utility to notify the commission of its intent to implement a surcharge, consistent with commission regulations.

Subsection (e) – Allowance for Funds Used During Construction (AFUDC)

Permits a utility to apply AFUDC to qualifying costs until those costs are included in the surcharge. Prohibits applying AFUDC to costs once they are being recovered through the surcharge (prevents double recovery).

** AFUDC: is an accounting method that lets a utility recover the financing costs of building a large project while it is still under construction.

Subsection (f) – Annual Updates

Requires utilities to file annual updates including:

- CWIP costs earning a return;
- Amounts otherwise recorded as AFUDC;
- Non-capitalized construction expenses.

Subsection (g) – Transition to Base Rates

- Once the investment is complete and in service, the utility may earn a fair and reasonable return through the surcharge until its next general rate case.
- In the next general rate case, the utility must move capitalized costs and associated expenses into base rates.
- The surcharge may continue for investments not yet complete.

Subsection (h) – 90-Day Decision Deadline

Requires the commission to issue a final order within 90 days after receiving a compliant filing.

Subsection (i) – Refunds for Imprudently Incurred Costs

If the commission determines recovered costs were not prudently incurred, it must order refunds through customer bill credits.

Subsection (j) – Definitions

Defines:

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- “General rate case” – A commission proceeding in which base rates and adjustment mechanisms are established.
- “Strategic investment” – Infrastructure investments (construction or purchase) and associated operating expenses that:
 - Support growth and economic development in Alaska; and
 - Maintain or improve reliable service for customers.