

**ALASKA STATE LEGISLATURE**  
**SENATE LABOR AND COMMERCE STANDING COMMITTEE**

April 12, 2005

1:41 p.m.

**MEMBERS PRESENT**

Senator Con Bunde, Chair  
Senator Ralph Seekins, Vice Chair  
Senator Ben Stevens  
Senator Johnny Ellis  
Senator Bettye Davis

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

SENATE BILL NO. 160

"An Act relating to a procurement and electronic commerce tools program for state departments and instrumentalities of the state; and providing for an effective date."

MOVED CSSB 160(L&C) OUT OF COMMITTEE

SENATE BILL NO. 108

"An Act relating to the regulation of insurance, insurance licensing, surplus lines, insurer deposits, motor vehicle service contracts, guaranteed automobile protection products, health discount plans, third-party administrators, self-funded multiple employer welfare arrangements, and self-funded governmental plans; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 157

"An Act relating to the maximum annual regulatory cost charge collected from certain regulated public utilities and pipeline carriers; and providing for an effective date."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 160

SHORT TITLE: STATE PROCUREMENT ELECTRONIC TOOLS

SPONSOR(S): LABOR & COMMERCE

04/01/05           (S)           READ THE FIRST TIME - REFERRALS

04/01/05 (S) L&C, FIN  
04/05/05 (S) L&C AT 1:30 PM BELTZ 211  
04/05/05 (S) Heard & Held  
04/05/05 (S) MINUTE(L&C)  
04/12/05 (S) L&C AT 1:30 PM BELTZ 211

BILL: SB 108

SHORT TITLE: INSURANCE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/14/05 (S) READ THE FIRST TIME - REFERRALS  
02/14/05 (S) L&C, FIN  
03/31/05 (S) L&C AT 1:30 PM BELTZ 211  
03/31/05 (S) Heard & Held  
03/31/05 (S) MINUTE(L&C)  
04/07/05 (S) L&C AT 1:30 PM BELTZ 211  
04/07/05 (S) Heard & Held  
04/07/05 (S) MINUTE(L&C)  
04/12/05 (S) L&C AT 1:30 PM BELTZ 211

BILL: SB 157

SHORT TITLE: REG. COST CHARGES: UTILITIES/PIPELINES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/31/05 (S) READ THE FIRST TIME - REFERRALS  
03/31/05 (S) L&C, FIN  
04/12/05 (S) L&C AT 1:30 PM BELTZ 211

**WITNESS REGISTER**

PATTY ADY, Supply Technician  
Sitka Pioneer Home  
Sitka AK

**POSITION STATEMENT:** Opposed SB 160.

BRUCE LUDWIG

Business Manager, Alaska Public Employees Association (APEA)  
American Federation of Teachers  
Secretary-Treasurer, Alaska AFL-CIO

**POSITION STATEMENT:** Opposed SB 160.

VERN JONES, Chief Procurement Officer  
Division of General Services  
Department of Administration  
PO Box 110200

Juneau, AK 99811-0200

**POSITION STATEMENT:** Commented on SB 160.

LINDA HALL, Director  
Division of Insurance  
Department of Community & Economic Development  
PO Box 110800  
Juneau, AK 99811-0800  
**POSITION STATEMENT:** Supported SB 108.

KATE GIARD, Chairman  
Regulatory Commission of Alaska (RCA)  
701 W Eighth Ave Ste 300  
Anchorage, AK 99501  
**POSITION STATEMENT:** Supported SB 157.

DAN DICKRAF, Treasurer Manager  
Division of Finance and Rates  
EnStar Natural Gas Company  
3000 Spenard Rd  
Anchorage AK 99503  
**POSITION STATEMENT:** Supported SB 157.

#### **ACTION NARRATIVE**

**CHAIR CON BUNDE** called the Senate Labor and Commerce Standing Committee meeting to order at [1:41:26 PM](#). Senators Seekins, Davis, Ben Stevens and Chair Bunde were present. Senator Ellis arrived at 1:45.

#### **SB 160-STATE PROCUREMENT ELECTRONIC TOOLS**

CHAIR BUNDE announced CSSB 160(L&C) to be up for consideration and that it contains the Alaska bidder preference.

PATTY ADY, Supply Technician, Sitka Pioneer Home, opposed SB 160. She said:

The state is nine months into a two-year pilot project. There is insufficient data to know what the long-term outcome will be. A private contractor is in business to make money, not to provide for all the different needs of Alaskans. These companies are more concerned with their profit margins than with the quality of the products used by frail elders. Our resident needs are different than the needs of other areas of the state that could suffer by the decisions made by people who do not have the experience to deal with these frail elders.... Our state will lose

approximately 200 jobs, which we can ill afford to be lost.

1:45:32 PM

SENATOR ELLIS joined the committee.

1:46:05 PM

BRUCE LUDWIG, Business Manager, Alaska Public Employees Association (APEA), American Federation of Teachers, said he is also Secretary-Treasurer of the Alaska State AFL-CIO. He said the pilot program was rushed through in the final days of the 2003 session. There were no measurements of success included nor benchmarks for comparison. He said the bill title is also misleading. Alaska Supply Chain Integrators (ASCI) was the only responsive bidder.

MR. LUDWIG said:

Since the pilot project began, only one quarter of the work has been audited. The second quarter is in the process of the audit and the third quarter is just over and we can presume that that's going to be started soon. The pilot has until June 30, 2006 until it expires. As the Department of Administration testified last week, the jury is still out on the project. It's too early to extend it. The bill should be held over while a sufficient record is established to be able to make a decision on whether or not it's a success.

MR. LUDWIG said he has heard many negative things about the experience. He heard that the purchasing of goods has resulted in a 20 percent increase in the cost. If that is extended over the life of the project, it will actually cost the state \$2.5 million more for the same goods that would have been purchased through the state purchasing procedure. He has heard that 1,500 invoices haven't been paid because they don't match up with the purchase orders.

That's Alaska firms that aren't getting paid. It's going to affect the state's reputation with its vendors and it's going to affect those firms that aren't getting their money timely.

1:49:00 PM

He related how the M/V Kennicott had an engine overhaul and seven orders were placed for engine parts. Six of the orders

were shipped to Juneau, but the ship was in dry-dock in Portland and all the heavy parts had to be shipped there. Of the original \$250,000 projected savings, about half was from eliminating the warehouse, but that has been reinstated. ASCI employees are working overtime now and the remaining savings might be nonexistent. In addition, since ASCI does not follow the procurement code, their procedures do not meet the minimum requirements for federal purchasing, which are very strict. Overhead, contract oversight and other things were not budgeted for. "In summary, it's too early to extend the project...."

[1:51:19 PM](#)

CHAIR BUNDE asked him about conflict of interest concerns.

MR. LUDWIG explained he had heard about a conflict of interest between a state official and someone connected with ASCI, but he didn't find any connection and the issue should be dropped.

[1:52:33 PM](#)

SENATOR SEEKINS moved to pass CSSB 160(L&C) from committee with individual recommendations and fiscal note.

SENATOR ELLIS objected to ask someone to discuss the audit report.

VERN JONES, Chief Procurement Officer, Department of Administration, said the initial audit was done at a time of lots of transitions and he felt there wasn't a large enough sample to draw conclusions for the audit.

SENATOR ELLIS asked when the next audit would be available.

MR. JONES replied at the end of this week and he hoped to conclude the third quarter's audit by end of session.

SENATOR ELLIS again noted the memo from Mr. Barton that has comparisons.

MR. JONES said memo is technically correct, but he believes through talking to professionals at the Division of Legislative Audit that the actual sample was so small, they couldn't extrapolate any findings that would hold up.

[2:00:36 PM](#)

SENATOR DAVIS noted that the bill doesn't have any other referrals and asked what the hurry is.

CHAIR BUNDE replied that he wanted the bill to move through the process.

2:01:30 PM

SENATOR ELLIS also asked what's the hurry. They are barely eight months into the pilot program.

CHAIR BUNDE said he thought progress was being made towards better service to the state, but the full body makes that decision.

2:02:56 PM

SENATOR ELLIS said state employees could do a better job if they were to be provided with the modern tools and techniques that private industry has. He also appreciated the attention to detail and urged people who erroneously made references to conflicts of interest to correct their comments in an expeditious manner.

CHAIR BUNDE said that had been done.

A roll call vote was taken. Senators Ben Stevens, Seekins, and Chair Bunde voted yea; Senators Davis and Ellis voted nay; and CSSB 160(L&C) moved from committee.

### **SB 108-INSURANCE**

CHAIR CON BUNDE announced SB 108 to be up for consideration.

SENATOR SEEKINS moved to adopt CSSB 108(L&C), version \F.

CHAIR BUNDE objected for discussion purposes and asked Ms. Hall to explain new language

LINDA HALL, Director, Division of Insurance, explained that new section 22 on page 13 adds language that deals with owner-controlled insurance programs and contractor controlled insurance programs. Today most of this concept is in already in the Worker's Compensation manual, but it's not part of statute.

Owner-controlled Insurance Programs (OCIP) have been standard in industry for some time as a way to put all of the costs together - to provide the safety programs for the project and have that reflected in the rate. For large construction projects it means either the owner of the project or a general contractor will buy the casual insurance - the general liability, workers' compensation for the entire project. The oil pipeline is an

example of that kind of process. Subcontractors who work on that type of program have to take out of their own insurance and therefore they don't have as much of a payroll with which to be able to negotiate as good a deal for themselves.

Most of the subs support this for large construction projects, which have a cap of \$50 million. This concept has expanded since 1995 into general maintenance and projects and operations, but she sees a detrimental potential affect on the marketplace. "As we contract further the amount of premium that's available for insurance companies, I think that has an overall negative affect on our marketplace in general."

[2:09:01 PM](#)

MS. HALL said this particular section was sponsored by the independent insurance agents who worked directly with the consumer who are concerned about markets. The subs are concerned about their own insurance program. If they have to put \$300,000 worth of payroll someplace else, then their own programs suffer on an on-going basis - as opposed to a one-time project.

[2:10:57 PM](#)

CHAIR BUNDE asked if the \$15 million is a floor or a cap.

MS. HALL answered a floor.

CHAIR BUNDE added that sections 28 and 29 remain in the bill after study, although they are acknowledged to be controversial.

[2:12:31 PM](#) At ease [2:12:58 PM](#)

CHAIR BUNDE said he would hold the bill until Thursday for a potential amendment.

**SB 157-REG. COST CHARGES: UTILITIES/PIPELINES**

CHAIR CON BUNDE announced SB 157 to be up for consideration.

KATE GIARD, Chairman, Regulatory Commission of Alaska (RCA), said that SB 157 is in response to complaints about the RCA's lack of transparency, its being non-responsive and creating a burdensome regulatory environment because of the time it takes to make decisions. She ran for the position of chairman to resolve that problem.

[2:17:52 PM](#)

The reason dockets sit is because the RCA has no mechanism to tell her, as chair, what her staff of 56 people are doing on a regular basis.

I don't know what they do; I can't account for their time, because we have no time management system. The industries that file with us don't know whenever we're going to get an answer to their questions.... People don't know what we're doing and when we're doing it. The systems are developed and are out there that can assist the RCA in certainly being more prompt, being more transparent, but we' don't have them here.

[2:21:36 PM](#)

CHAIR BUNDE asked if she hears general agreement or opposition from the utilities on this bill.

MS. GIARD replied that Chugach Electric, ML&P, ConocoPhillips, AT&T Alas COM, ACS, GCI, Alaska Power Association, all strongly support it. "They think that it's long overdue." She has not heard from anyone that this is a bad idea.

[2:23:11 PM](#)

CHAIR BUNDE said she indicated in a letter to the legislature that the bottom line is with the consumer and if a consumer uses three regulated services - telephone, gas and electric - that the total impact of this legislation is estimated to be \$6.48 for three years; then this rate increase would go away.

MS. GIARD replied that is correct. She explained that she did not ask for this money to be put into a capital plan, because it is needed in the form of a range of monies. At first, she estimated her plan would cost \$1.5 million. But upon seeing that, Chugach Electric recommended that she form an advisory group, which she did in January 2005. It was comprised of Chugach ML&P, AWWU and GCI all of which dedicated their time and IT resources to help formulate the budget. They came up with a budget range of \$2 million to \$3 million. Because of the unique way the RCA statute is written, the money would come into the operating budget and if it is not all spent, it will offset the RCC calculation for the next year. If it went to the capital budget and wasn't spent, it would sit there and the RCA could use it for something else in the future. "That's not beneficial to rate-payers."

[2:26:04 PM](#)

CHAIR BUNDE referenced her letter again that says the money would be spent on creating a staff and time management system. He asked if she planned to add staff.

MS. GIARD responded.

What I mean is I don't know what they do with their time. So, I'd like to know their time resource, where they spend it. Do they spend it on electric utilities? Do they spend it on telephone? Are they doing admin seven hours a day? It's not likely, but because there's no real reporting, I don't know where our resources are going. So I can't tell you what the optimal staffing level is...whether we need more staff or fewer staff. I suspect if we get these systems in place, we should be able to operate with fewer staff and we actually recently reduced our staff size from 62 to 56 - because our docket load is approximately 125 dockets.

[2:27:18 PM](#)

CHAIR BUNDE continue saying that the second item in the letter says she would use the monies for a system to receive, store and retrieve data filed with the RCA electronically.

MS. GIARD replied yes and that most utilities are now computer savvy.

[2:28:36 PM](#)

DAN DICKRAF, Treasurer and Manager, Division of Finance and Rates, EnStar Natural Gas Company, said he has dealt with regulatory matters for years and supported the efficiencies and funding mechanism in SB 157. It would make information available easier and faster for the commission, utilities and customers. It would save on paper, storage, filing costs and is ecological in that respect, as well. Rate payers will save and get better regulation.

[2:30:34 PM](#)

CHAIR BUNDE said this is straight-forward, but not knowing RCA issues, he wanted to hold the bill until the next committee meeting.

SENATOR ELLIS asked, "What's the time frame for some sort of net benefit to consumers?"

MR. DICKRAF replied that he is not the person to ask because he doesn't know what the delivery times to the RCA are for the individual systems. They will create costs as they come on line. Filing costs, for example, if that can be done electronically, would be an immediate savings on paper copies, a courier, et cetera. As a practical matter, a utility's rate might not drop until it comes in for a rate case or it may not have to ask for additional cost at some point in the future. The timeframe would depend on the individual utility.

SENATOR ELLIS asked if before the next meeting Ms. Giard could provide the committee with a better understanding of the phase-in of the new systems and technologies that will save money down the line. He also wanted to know when the benefits of paying more would catch up to the consumers.

MS. GIARD responded that she would be happy to do that.

CHAIR BUNDE said he would set SB 157 aside until Thursday and adjourned the meeting at [2:35:41 PM](#).