

HB

546

COMMITTEE REPORT

1/13/75

HOUSE

SECRETARY

Mr. Speaker:

Date _____

The Committee on TRANSPORTATION has had NO ACTION

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

"and" recommends it BE REFERRED TO THE _____

COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ Chairman

STATE
of ALASKA

MEMORANDUM

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

TO: The Honorable Bob Bradley
Chairman
House Commerce Committee

DATE February 5, 1976

FROM: Langhorne A. Motley *LM*
Commissioner

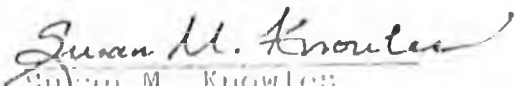
SUBJECT HB 546

Attached are copies of comments from the commissioners of the Alaska Public Utilities Commission relative to HB 546 (public utility rates). I understand this bill will come up before the House Commerce Committee on Thursday, February 12. If you desire that members of the commission attend the meeting to present further testimony, please let me know and I will contact them for you.

Comments on House Bill No. 546

The surcharge mechanism, most commonly applied through a fuel cost adjustment charge (FCAC) but also utilized occasionally for taxes and other costs, is the subject of considerable debate in the regulatory arena. Many commissions, like the APUC, have permitted utility companies to use the FCAC to offset the volatile changes in fuel prices which potentially impair the financial stability of the utility and, in turn, its ability to service its customers. Inasmuch as the FCAC is employed selectively, monitored with regard to calculation and billing of fuel charges, and subject to careful and continuous review, it does attempt to provide a reasonable alternative to the timely and costly full rate proceeding. Therefore, if the legislature should adopt the philosophy that it will not permit surcharges, it will be desirable to examine the full financial ramifications of this determination.

(b) The Alaska Public Utilities Commission has consistently excluded construction work in progress in determining the value of public utility property in rate-making proceedings. Most utilities, while aware of the Commission's policy, continue to incorporate construction work in progress as a component of rate base and to argue for its inclusion in written and oral testimony before the Commission. This section of the proposed legislation would provide a legislative mandate for the Commission's current posture and eliminate construction work in progress as a ratemaking issue.

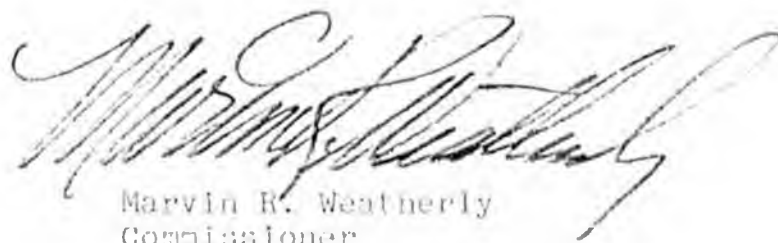


Susan M. Knowles
Commissioner
Alaska Public Utilities Commission

HB 546

I am not in favor of Section 1, sub-section (a) of HB 546 relating to surcharge. The economic impact on this Commission would be prohibitive. This is due primarily to the unsettled nature of energy source costs to the utility. Wide-ranging fluctuations in energy costs would place the utility in a position of constantly being before this Commission in a rate proceeding. This increased activity before the Commission would require additional personnel, travel and other budgetary increases.

Section 2, sub-section (b) with regard to construction work in progress (CWIP) is consistent with current and past practices of this Commission. CWIP is handled in a variety of ways by other regulatory Commissions throughout the United States. The APUC has consistently rejected the inclusion of CWIP; this section of the bill would merely reinforce that rejection.



Marvin R. Weatherly
Commissioner
Public Utilities Commission

I am not particularly fond of the use of surcharges in lieu of the usual ratemaking process. However, during the past months it appeared that the surcharge route was the only way to keep many Alaskan utilities financially viable. The rapid escalation in the cost of fuel oil placed those utilities in a position where they were having to absorb unprecedented expenses. A normal tariff revision involves a considerable period of several months at a minimum due to statutory requirements for noticing, etc. It is one of the responsibilities of the Alaska Public Utilities Commission to see that the utilities are kept financially healthy. It would have been possible for several of the electric utilities to have been seriously injured from an economic standpoint by the rapidly increasing cost of fuel. I personally have not favored the use of fuel surcharges for any type of fuel other than fuel oil. I was of the opinion that the prices of coal and natural gas could be more readily anticipated and handled in the normal tariff revision procedure. The surcharges presently being assessed for rising costs of fuels involved the flow through of the "bare bones" costs of the fuel. There are no add-ons for profit, etc.

This procedure may appear to be unreasonable in some service areas of Golden Valley Electric Association. The surcharge is much larger in the GVEA area not necessarily due to higher costs of fuel but to a change in the utilization of generation plant in the GVEA area. The surcharge actually works more to the advantage of the consumer than a normal tariff revision would. The reason for this is the computation for the highest surcharge is applied to the next month's consumption and a consumer does not pay as much as if there had been a flat increase in the rate. In the case of GVEA it has been estimated that they lose in excess of \$400,000 in this manner . . . or the consumers gain this amount. The tremendous population boom in GVEA's area has necessitated the utilization of more diesel plant and consequently more fuel oil. GVEA is presently before this Commission for a rate increase which would eliminate this present surcharge and establish a new fuel cost basis if any further surcharge is needed.


Gordon J. Zechetz
Chairman
Alaska Public Utilities Commission

Position of B. Richard Edwards, Commissioner, Alaska
Public Utilities Commissioner regarding surcharges for energy
use (referred to in paper as AFAC - Alaska Fuel Adjustment
Charge) made to Alaska Rural Electrical Cooperative
Association, August, 1974.

In arriving at the conclusions which I have previously stated it was necessary to weigh and evaluate these disadvantages to the AFAC with the pros and advantages of such clauses. In my view the major advantages of such clauses include:

- (1) keeping a utility from bankruptcy court in a time of severely rising costs on a certain product (in this case fuel) where that rising cost is somewhat caused by a lack of supply;
- (2) to permit the aforementioned rising fuel costs to be flowed through to the consumer of the smaller utility so that that utility will not be required to come into the Commission month after month with a complicated and very costly rate case;
- (3) to limit the costly effects of regulatory lag during a period of high inflation; and
- (4) to permit the electrical power utility in many of our smaller communities in the State to insure an adequate fuel supply.

In weighing the pros of an AFAC against the cons of the AFAC the primary consideration is the overall axiom of rate regulation that it is in the public interest for each consumer to receive reliable utility service at the lowest possible price and that to accomplish this the public utilities supplying the service must be in healthy financial and structural condition.

As I mentioned earlier in my opinion, the pros still outweigh the cons and the AFACs should be allowed to remain by the Commission. It is also my opinion, however, that one of the major reasons for the AFAC, that is galloping rising fuel costs, will soon stabilize, in which case the necessity for AFACs will vanish. I am not unmindful of the arguments that the AFACs are a double edged sword, that is, the sharp edge which permits a surcharge to be added to each customer's bill as fuel costs rise, and the dull edge which permits a reduction of that surcharge in the event of lowering fuel prices. There are those who argue that because of the possibility of lowering fuel costs in the future the AFAC should be maintained to give the public the benefit from such lowered fuel costs. In my mind this is not a strong argument for maintaining the AFACs because I cannot foresee this country's fuel crisis becoming such that fuel costs will begin to lower, however, as I have previously mentioned I can foresee this country's fuel crisis stabilizing either through the market structure or government control. This would result in a stabilized price for hydrocarbon products. Furthermore, if by some quick of fate fuel prices are reduced, the rates may be reduced through the normal regulatory processes.

Because of the disadvantages of the AFACs any electrical utility that has such clauses must also assume

certain responsibilities. These responsibilities require the electrical utility to attempt to find methods of increasing their productivity of kilowatt hours per BTU input. Also the public utility is required to seek out and institute every possible efficiency measure it is capable of in order to decrease the costs to the consuming public. Furthermore, the utility should use every opportunity to obtain fuels at a cheaper price. It is recognized, of course, which some people fail to recognize that many of the utilities with AFACs have one source or supplier of fuel and that bargaining for a cheaper price is like blowing in the wind. In any event, I would bet on the shrewdness of this State's electrical utility operators against a fuel oil supplier any day when it comes to bargaining for the prices to be paid for the fuel. The last requirement that AFACs place on electrical utilities but the first and most important requirement is that the electric utility keep its customers fully informed of why that surcharge is being placed upon their billing. This information in the smaller communities can range from word of mouth to media coverage. Possibly a town meeting would be necessary, held by the public utility to explain that it is being charged higher fuel costs and that these costs are being passed on to the consumer pursuant to a formula which is fair and just to the consumer.

When I am weighing the pros and cons of the AFACs to determine whether they are necessary or should continue in effect for a certain utility, I also review whether or not this utility has assumed these responsibilities which I have mentioned above.

In conclusion I want to throw out a challenge to the electrical utilities represented at this Convention to devise an innovative procedure for insuring that Alaskan power utilities have a supply of fuel at a reasonable price. Your methods to insure this supply might require legislation or contractual rights requiring a portion of the State's royalty oil and gas to be available in the appropriate refined state for Alaskan public utilities. It is clear that the high fuel costs, the AFACs, and the surety gas on customers bills are a direct result of a fuel supply crunch felt across the nation. It is my opinion that Alaskans have a golden opportunity to insure their own supply, to protect Alaska's growth and her utility customers.

Comments on House Bill No. 546

I am opposed to Section 1 AS 42.05.381(a) for the following reasons.

It is my understanding from staff that the energy surcharge that is now being used by 24 utilities throughout the state of Alaska is the fairest way to cope with an economic situation that all of us face.

Generally utilities have two areas of cost - fixed costs and energy costs. The former costs must be recovered from the consumer regardless of the energy used. The energy costs are directly related to what it costs to produce the energy used by the consumer. Energy costs are recoverable by projecting future demand based on past history or as is the procedure by the surcharge by charging the consumer for exactly how much it costs to produce the amount of energy he uses.

There are qualifying factors which staff uses to base their recommendations to the Commission on whether a surcharge should be allowed by a utility. These are the changes in energy costs must be Frequent - Unexpected - Significant and Entirely beyond the control of the utility (FUSE). We have experienced in the last two years the fluctuating price of fuel oil which these utilities must buy in order to produce electricity.

The surcharge is established at a base rate level of cost of fuel. The staff of the Commission monitors the charges for this fuel oil taking into consideration the efficiency factors of producing the energy as well as checking the mathematical computation.

The Commission is currently looking at each utility with a surcharge to determine when the utility should be requested to come in with a rate increase, thereby updating the base price of fuel to current levels thereby reducing the surcharge to zero until such time as the cost of fuel increases the surcharge now in effect -- but not eliminating the higher bill for energy consumption as a rate increase would reflect the current cost of energy.

If it is the legislature's desire to eliminate the surcharge it would appear that each of the utilities affected (24) would be forced to come to the Commission for a rate increase at least once a year. This additional workload would necessitate additional staff and monies for consultants. I strongly suggest that a fiscal note be requested as there are financial implications in this legislation for the Alaska Public Utilities Commission.

Attached please find Exhibit A which lists the utilities presently using a surcharge and the percent of their consumer's bill that is surcharge. Please note that in some instances when a consumer is using a very large amount of energy his surcharge will be proportionately much higher because the rate he is paying for his energy is less i.e., a consumer using energy at 10¢ per kilowatt hour and paying an additional 1.5¢ per kilowatt hour surcharge will not be impacted by a surcharge as the consumer using energy at 3¢ per kilowatt hour and paying the same 1.5¢ surcharge.

Also, attached please find Exhibit B which is a xeroxed copy of a request for a surcharge and the procedure utilized by the Commission in granting such a request.

I believe Section 2 of AS 42.05.441(b) amending this section is of value. The policy of the Commission has consistently been to exclude construction work in progress in rate base. However, in my brief experience with the Commission, every utility that has filed for a rate increase has included construction work in progress and therefore much time and energy have been devoted to listening to the utility try and change the mind of the Commission and to digesting sets of financial statements with and without construction work in progress.

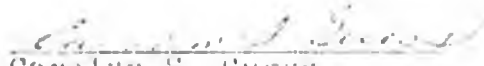

Carolyn S. Guess
Commissioner
Alaska Public Utilities Commission

EXHIBIT A

Location	Utility Name	% of Customer Bill That is Surcharge
Aniak	Aniak Power Company	15.2
Auke Bay	Glacier Highway Electric Assoc.	Unknown at this time
Bethel	Bethel Utilities Corporation	Unknown at this time
Cold Bay	Northern Power & Engineering	22.4
Craig	Alaska Power & Telephone Co.	22.4
Dillingham	Nushagak Electric Association	15.7
Egegik	Nushagak Electric Association	19.1
Fairbanks	Golden Valley Electric Assoc.	18.0
Fort Yukon	Fort Yukon Utilities	6.9
Glennallen	Copper Valley Electric Association	16.9
Haines	Haines Light & Power	30.6
Juneau	Alaska Electric Light & Power	0.48
Hydaburg	Alaska Power & Telephone	34.7
Kodiak	Kodiak Electric Association	28.6
Kotzebue	Kotzebue Electric Association	6.3
McGrath	Northern Commercial Company	16.4
Naknek	Naknek Electric Association	19.1
Port Lions	Kodiak Electric Association	22.2
Northway	Northway Power & Light	18.9
Skagway	Alaska Power & Telephone	11.3
Tok	Alaska Power & Telephone	18.3
Unalakleet	Malamukta Electric Association	16.6
Yakutat	Yakutat Power, Inc.	18.8
43 Villages	Alaska Village Electric Coop.	13.4

File No.: TA 13 - 88

Date Filed 11 / 24 / 75

Name of Utility NORTHERN POWER & ENGINEERING CORPORATION, INC.

Tariff Recommendation:

- 1. Publication of notice should be waived..... X
- 2. Filing should become effective at end of 45-day statutory notice period on ___/___/___.....
- 3. Filing should be allowed to become effective on 12/1/75 which is less than the 45-day statutory notice period..... X
- 4. Filing should be rejected and returned to the utility.....
- 5. Operation of the filing should be suspended.....
- 6. Part of filing should be accepted effective ___/___/___ and part should be suspended.....

Reason(s) for the above-indicated recommendation:

The filing is in the proper format.

Signed: R.A. Kuntz Title: Tariff Specialist II

Recommendation to Tariff Sec.: Recommend Approval. Arithmetic checks and submittal conforms to previous submittals. This is the 10th surcharge applied at Cold Bay and the 1.84¢/KWH is a 0.11¢ increase and corresponds to a 1¢/gal increase in the cost of fuel. Efficiency is constant. This should generate an average \$4,015/mo above base revenue for the utility and add \$9.20 (18% of total bill) to the 500 KWH/mo consumers' \$41.00 bill.
(of \$50.20)

Signed: D.L. W. Powell Title: Utilities Engineer III

Commission decision re this recommendation:

I Concur

I Do Not Concur

Zerbetz

[Signature]

Edwards

[Signature]

Weatherly

[Signature]

Knowles

[Signature]

Guess

[Signature]

Special instructions to staff: _____

December 11, 1975

Please Reply:
Attn: Tariff
Ref: TA13-88

Mr. Edward L. Tilbury, Vice-President
Northern Power & Engineering Corporation
P. O. Box 729
Eagle River, Alaska 99577

Dear Mr. Tilbury:

Enclosed is the validated tariff sheet which was filed on November 24, 1975, by Northern Power & Engineering Corporation. This filing, designated as TA-3-88, has an effective date of December 1, 1975.

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION



J. Lowell Jensen, P.E.
Executive Director

RAL:tml
Enclosure

P.

NORTHERN POWER & ENGINEERING CORPORATION

P. O. Box 729 • EAGLE RIVER, ALASKA 99577 • (907) 694-9631

November 20, 1975

Tariff Advice Letter No. 13
Alaska Public Utilities Commission
1100 MacKay Building
338 Denali Street
Anchorage, Alaska 99501

Gentlemen:

The tariff filing described below is hereby transmitted to you for filing in compliance with the Alaska Public Utilities Act and secs. 3AAC 48.200 - 3AAC 48.420 of the Alaska Administrative Code.

<u>Tariff Sheet Number</u>		<u>Cancel Sheet Number</u>	
<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
	First Revised	41	
	41		

This tariff revision is being submitted to adjust the fuel cost rate adjustment surcharge to reflect the current status of our generation efficiency and fuel cost. The computed surcharge rate of 1.84¢/KWH will apply to electric consumption during the month of November 1975 and will appear on the customer statements dated December 8, 1975.

Attached are Exhibits I & II computing the surcharge rate and fuel inventories as well as copies of fuel delivery invoices and a revised tariff sheet for filing.

Sincerely,

NORTHERN POWER & ENGINEERING CORPORATION

Edward L. Tilbury
Vice-President

RECEIVED
A.P.U.C.
Nov 24 11 46 AM '75

EXHIBIT I
12 MONTH PERIOD
PRECEDING SURCHARGE

November 1, 1974 through October 31, 1975

DATE	FUEL PURCHASED	KWH SOLD
NOV 74	22,548 GAL	222,200
DEC	20,164	231,374
JAN 75	24,064	275,099
FEB	19,736	219,633
MAR	20,391	238,540
APR	18,947	219,550
MAY	22,786	210,479
JUN	15,738	192,937
JUL	16,899	167,416
AUG	20,010	204,015
SEP	16,851	196,687
OCT	22,561	241,307
	<u>240,695</u>	<u>2,619,237</u>

SURCHARGE CALCULATION

$$\text{Surcharge} = \frac{\text{Current Fuel Cost} - \text{Base Period Fuel Cost}}{\text{Average KWH Sold/Gal Fuel Consumed}}$$

$$= \frac{45.0\text{¢} - 25.0\text{¢}}{2,619,237/240,695}$$

$$= 1.84\text{¢/KWH}$$

EXHIBIT II

STATEMENT OF FUEL INVENTORIES
AT COLD BAY, ALASKA

Nov. 20, 1975

DATE	GALS DELIVERED	PRICE	INVENTORY
OCT 03	4,192	44¢	3,808
10	4,602	44¢	3,398
17	4,519	45¢	3,481
24	4,638	45¢	3,362
31	4,610	45¢	3,390

NORTHERN POWER & ENGINEERING CORPORATION

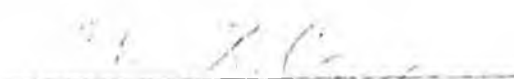

Edward L. Tilbury
Vice-President

State of Alaska

Third Judicial District

THIS IS TO CERTIFY that on this 20th day of November, 1975,
before me appeared EDWARD L. TILBURY, VICE-PRESIDENT of
NORTHERN POWER & ENGINEERING CORPORATION, known to me to be
the individual signing the statements set forth herein.

WITNESS my hand and seal the day and year hereinabove written.


Notary Public In and For Alaska

1.7 Commission Expires 11-3-79

Concerning

Original

Sheet No.

41

NORTHERN POWER & ENGINEERING CORPORATION

FUEL COST RATE ADJUSTMENT

The surcharge for increased fuel costs is as follows for billings rendered after the effective date set forth below:

$$\text{Surcharge} = \frac{45.0\text{c} - 28.0\text{c}}{10.0\text{c}} = 1.84\text{c}/\text{KWH}$$

This filing is submitted pursuant to Order No. 2 of Docket U-74-92.

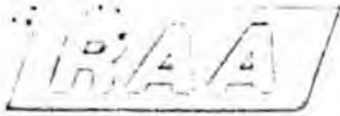
Tariff Advice No. 13

Effective: December 1, 1975

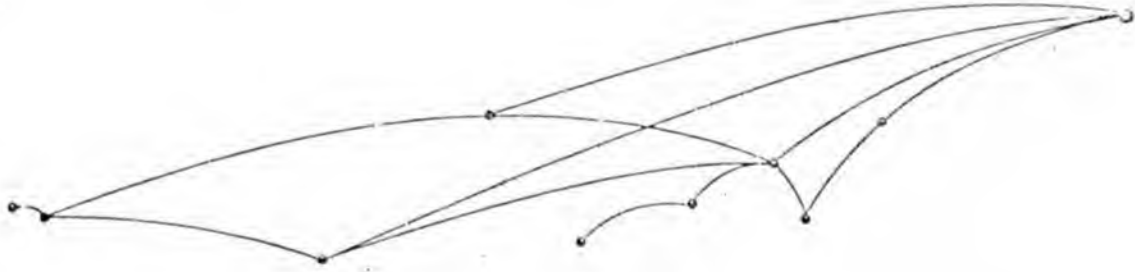
Issued by: NORTHERN POWER & ENGINEERING CORPORATION

By: Edward L. Tilbury

Title: Vice-President



REEVE ALEUTIAN AIRWAYS, INC.



October 17, 1975

Northern Power & Engineering Corp.
Box 729
Eagle River, Alaska 99577

Gentlemen:

Effective October 17, 1975 the Chevron Heating Fuel #2 will be increased in price to \$.45 per gallon.

This increase represents a crude oil increase by the Standard Oil Co. of California to us on October 17, 1975. This increase you are receiving represents our fuel costs and in no way reflects our dealership costs.

Yours truly,

Reeve Aleutian Airways, Inc.

Robert L. Hanson
Robert L. Hanson,
Executive Vice-President

lja

RECEIVED

OCT 21 1975

MAIN OFFICES

P.O. BOX 559-543 W. 6th AVE
ANCHORAGE, ALASKA 99510

ACCOUNTING, MAINTENANCE, OPERATIONS

P.O. BOX 6027 - INTERNATIONAL AIRPORT
ANCHORAGE, ALASKA 99510

REEVE ALUTIAN AIRWAYS, INC.

COLD BAY ALASKA

REEVE ALUTIAN AIRWAYS, INC.

Cold Bay ALASKA

REEVE ALUTIAN AIRWAYS, INC.

COLD BAY ALASKA

No 5517 Date 10-3 1975

Name N P E C

Address _____

SOLD BY	CASH	C. O. D.	CHARGE	ON ACCT.	MOSE. RETD.	PAID OUT
<u>OK</u>			<u>X</u>			
QUAN.	DESCRIPTION	PRICE	AMOUNT			
<u>477</u>	<u>DIESEL</u>	<u>47</u>	<u>1877 48</u>			
4	STOP	5980477				
5	START	5926205				
6	TOTAL	4192				
			<u>1877 48</u>			
Customer's Order No.		Paid By <u>R. Livingston</u>		KEEP THIS SLIP FOR REFERENCE		

4814.2

ACC 115

No 5519 Date 10/10/75 1975

Name _____

Address N.P.E.C

SOLD BY	CASH	C. O. D.	CHARGE	ON ACCT.	MOSE. RETD.	PAID OUT
<u>OK</u>			<u>✓</u>			
QUAN.	DESCRIPTION	PRICE	AMOUNT			
<u>477</u>	<u>Diesel</u>	<u>44</u>	<u>2100 56</u>			
4	Start	5983506				
5	Stop	5928108				
6	Total	4117				
			<u>4117</u>			
			<u>4117</u>			
			<u>6142</u>			
			<u>2100 56</u>			
Customer's Order No.		Paid By <u>R. Livingston</u>		KEEP THIS SLIP FOR REFERENCE		

4814.2

ACC 115

No 5521 Date 10-17 1975

Name N P E C

Address DIESEL

SOLD BY	CASH	C. O. D.	CHARGE	ON ACCT.	MOSE. RETD.	PAID OUT
<u>OK</u>			<u>X</u>			
QUAN.	DESCRIPTION	PRICE	AMOUNT			
<u>4511</u>	<u>DIESEL</u>	<u>47</u>	<u>1932 36</u>			
4	STOP	5977581				
5	START	5920060				
6	TOTAL	4519				
			<u>1932 36</u>			
Customer's Order No.		Paid By <u>R. Livingston</u>		KEEP THIS SLIP FOR REFERENCE		

4814.2

ACC 115

REEVE ALEUTIAN AIRWAYS, INC.

CDB ALASKA

No 5522

Date 10/24 19 75

Name NPEC.

Address _____

SOLD BY	CASH	C. O. D.	CHARGE	ON ACCT.	MOSE. RETD.	PAID OUT
RLN			X			
QUAN.	DESCRIPTION			PRICE	AMOUNT	
4638	DIESEL			44	2087.10	
2				45	2010.72	
3	STOP 6004702				2087.10	
4	START 6000064					
5	4638					
6						
7						
8						
9	635					
10						
11					2087.10	
12	TOTAL				2040.72	
Customer's Order No.				Rec'd By <u>R. Hampton</u>		
KEEP THIS SLIP FOR REFERENCE						

4814.2

ACC 115

REEVE ALEUTIAN AIRWAYS, INC.

CDB ALASKA

No 5525

Date 10/31 19 75

Name NPEC.

Address _____

SOLD BY	CASH	C. O. D.	CHARGE	ON ACCT.	MOSE. RETD.	PAID OUT
RLN			X			
QUAN.	DESCRIPTION			PRICE	AMOUNT	
4610	DIESEL			45	2074.50	
2						
3	STOP 6009312					
4	START 6004702					
5	TOTAL 4610					
6						
7						
8						
9	6151					
10						
11						
12	TOTAL				2074.50	
Customer's Order No.				Rec'd By		
KEEP THIS SLIP FOR REFERENCE						

4814.2

ACC 115

HOUSE COMMERCE COMMITTEE
February 17, 1976

House Bill 546

Chairman Bradley called the meeting to order noting that a quorum was present. Representative Red Swanson was called to testify, being the prime sponsor of the bill.

Rep. Swanson explained that he had introduced the bill at the request of his constituents in his district and those of interior Alaska. One year ago he had filed a protest with the Federal Energy Commission in Washington on an unfair use of surcharge with the Golden Valley Electric Company (GVEA). He didn't get to far with Mr. Zar or Region X, which is the Northwest Region. In fact they ignored me. Although GVEA did with the Alaska Public Utilities Commission (APUC) hold a type of hearing with a protest from the City of Anderson. I didn't have a reply with Region X which should deal with the type of surcharge to oil with GVEA. In my travels in the interior of Alaska this past summer, I again met with people and the number one priority with the Fairbanks people was this. Although my attention is forced on GVEA it is also in twenty-four communities in dealing with electric companies. This is not only on electric companies but on phones, garbage, etc. This bill would amend the statutes to disallow a surcharge. Under the APUC and statutes we have every mechanism laid down by law which allows any public utility to go before the APUC and if rate increase is justified they can get the increase. Through the loop hole, they can use the surcharge for just about anything they want to impose on the people. GVEA had an interium rate increase of 18% but the 18% through the loop hole allows them to use any type of computation they want. One case of this as an example; a man's utility bill was \$344.60 on \$156.50 on the demand basis and \$268.81 surcharge. It is a terrible thing happening to the people. Go back a few short weeks ago to an Anchorage paper whe the APUC denied the City of Anchorage in their utility rates and unfold itself to the public that they had taken the money that was suppose to go to upgrade utilities and instead was put in ghe general fund for whatever they pleased. I quote: "It's just another case of why the bill is important. We must close that loop hole in the law that allows these things to happen." My criticism is not against the utility, it what we as legislature has allowed. Let me quote a part of the loop hole in the law which allows this to happen. Section 42.05.411 New and Revised Tariff. "No public utility may establish or place in effect any new or revised rates, charges, rules, regulations, conditions of servic, or practice except after thirty days notice to the Commission and the public. Notice shall be given by filing with the Commission and keep open for public inspection the revised tariff provisions which shall plainly indicate the change to be made in the schedules then in force and the time when the change will go into effect. The Commission may prescribe additional means of giving notice." The loop hole is: "The Commission, for good cause shown, may allow the change to take effect on less than thirty day notice under conditions the Commission prescribes." The loop hole is there where the Commission can allow them to change anything they want to. I have received over a thousand letters from the public. I will keep them in my office if the committee members would like to view them. Take for example a little old lady on a fixed income and a few years ago was talked into going all electric. Today her electric bill is more than her rent. The public is now being penalized.

I'd like to go through the request that came from the APUC. Mr. Gordon Zerbertz sent me this information and I'm sure it is the same as you have. I would like to go through some of the outstanding parts of his testimony. "I am not particularly fond of the use of surcharges in lieu of the usual rate making process, however, during the last month it appeared that the surcharge route was the only way to help many Alaska utility companies financially viable." This is true because of out of twenty-four communities in Alaska, the small utilities have applied for a surcharge and they have not violated the surcharge. They have applied for the cost of fuel and that is the only reason. They did not go to up to 75 to 90% increase. In Mr. Zerbertz's testimony "The tremendous population boom in the GVEA area has necessitated the utilization of more diesel plant and consequently more fuel oil. GVEA is presently before the Commission for a rate increase which would eliminate this present surcharge and establish a new fuel cost basis and any further surcharges as needed." But even in their request they left open the loop hole. I quote from GVEA's newsletter: "This was a request of 25% rate increase on August 26, 1975 to the APUC. It will eliminate the present surcharge although it also has a surcharge provision which will be exercised if fuel cost go crazy again." They close the loop hole in the beginning and then come back with a provision to do it.

Mr. Marvin Weatherly in his remarks in the first paragraph states: "The economic impact of this commission would be prohibitive. This is due primarily to the unsettled nature of energy source costs to the utility." He further states: "This increase in activity before the commission would require addition personnel, travel and other budgetary increases." I would like to point out to the committee that these people make \$41,000 per year and I certainly am hopeful that they sit at their desks at least eight hours per day, five days per week. Costs to close the loop hole would not make additional costs if they would just sit down and work. There is a strange thing that happened with the APUC when the legislature increased the amount of staff to two people on the commission. We put on that commission two very able people in the role of Susan Knowles and Carol Guess. Susan Knowles' remarks again go back to the fact that there is no real objection to closing the loop hole. They would need additional personnel if effected. Each commissioner has agreed with my bill.

In Mr. Edwards note is the same reason for additional personnel because of the increase in workload. Page five of his testimony is something that really made be protest to the Federal Energy Commission in Washington and I quote: "I cannot foresee this country's fuel crisis become such that fuel costs will begin to lower, however, as I have previously mentioned, I can foresee this country's fuel crisis stablizing either through market structure or Government control." I would like to say that PL 93.319 Federal, says: "Under the Nixon administration, it was mandated that those companies when coal is available, that companies convert from oil to coal." This was confirmed on December 22, 1975, that utilities where coal was available must convert from oil or gas. Today we have a ceiling on the cost of coal. It could change. Because Mr. Edwards did open this up it did allow me to make those remarks. This ia another thing the committee is not aware of that in the amendment to the law under the Environmental Protection Act, those regulations were amended to allow such companies such as Healy Coal and Usibelli Coal Mines.

I hope that the committee realizes that I'm not taking on the APUC or GVEA. I am trying to close a loop hole in the law for my constituents and yours.

Rep. Wallis asked for an explanation of the last sentence in the bill.

If a utility company is going to build a power plant five years from now, they cannot use the cost of that facility as a charge back today to the customer. The APUC agreed that companies have repeatedly applied for this cost as a rate making base.

Rep. Wallis asked what this says though is work in progress.

A utility company could have work in progress for ten years to twenty years. They continually build a facility up and up.

Rep. Wallis asked if we are putting a hardship on utilities so that they can't amortize their construction.

They can amortize their construction. Nothing in the law stops a utility from going to the commission and asking for an increase in rates for the cost of running the utility.

Chairman Bradley stated that the APUC in their report had stated that this would make it statutory rather than by regulations. They stated they had no problems with Section 1 of the bill, however, Section 2 would put stress on the work load.

Rep. Union asked if Rep. Swanson knows if the surcharge has a profit involved in it or just the cost.

I don't think I can answer that, however, someone did ask the APUC about utilities paying income tax on their profit and the APUC stated that no public utility was allowed to make a profit.

Rep. Union asked if we do this then they could get a permanent increase through the APUC.

Yes, if a utility comes in with a justifiable rate increase and prove to the Commission by law they can grant it.

Rep. Union stated then the surcharge is for additional costs only, we assume that. It seems to me they will be paying the higher rates only it will be permanent.

The GVEA people were granted an 18% increase in cost by the APUC but they have utilized the loop hole in the law to increase 18% to as high as 67%. Many people in their testimony to me stated they realized there had to be an increase in rates but would like to know what it is for. They didn't want it to change every month.

Rep. Rudd was curious to know how this would close the loop hole. Wouldn't this still allow utilities to come in with thirty day notice and get an increase in rates.

No they wouldn't if you close the loop hole. The legal advice I had when we made this bill advised me that this would close it.

The Chairman then recognized Representative Glenn Hackney to testify before the committee.

I'll be very brief Mr. Chairman. There is only one thing, that is make a point of a hearing in Fairbanks on March 6, 1976 which has to do specifically with the GVEA surcharge. I would like to read a letter from the APUC. They say they have directed staff to pursue the question of holding a hearing in Fairbanks. "It was suggested that the most expedient procedure would be to combine our efforts with GVEA and hold a public hearing which would be chaired by the APUC." The date has been firmed up as March 6th. There's one crucial paragraph in the letter that I would like to stress. This is from Marv Weatherly and he says: "As you know, GVEA is a cooperative which is owned by the membership. This commission and other commissions in the lower '48 consider such REA financed co-ops as the least likely to gouge the public. Members of GVEA through the democratic process of changing the board of directors, can have more impact on the management of GVEA than can this commission." It goes on to say: "Hopefully we will soon enter into a period of stable energy prices and the surcharge question will be one of history." Well, I'll believe that when I see it.

A couple of comments on the bill itself. One of the reasons for this surcharge is it takes so long to get a rate hike approved through the APUC and with the way fuel prices have fluctuated, what Red called an escape hatch has been used by the utilities in order to recoup the cost that they've been subjected to by having to use very expensive fuel oil in order to generate electricity. I think Rick (Urion) made a good point in saying that if a rate increase is put into effect that will cover projected costs of the utility, it is going to be a year round rate increase. I think we should look at that very closely, because we could be doing a real disservice to the consumer's of electric power in this state if we do away with the surcharge. If GVEA is being irresponsible in its operating then certainly at the Board of Directors meeting they are open to owners who are the people who have a piece of GVEA. As to comments on the profit question, I think that will come out at this hearing on March 6th. I am intending to go to this hearing, on my own dime I might add. I am going to tape the hearing and I might suggest someone from the committee might want to attend. I'd be please to tape it and make it available to the committee. I think it will be very interesting and informative meeting. I don't happen to be on GVEA in Fairbanks but Mr. Chairman we are talking about rates and I too have had many letters as Red has from constituents in the Fairbanks area. One in particular from a lady who had a bill for 8,150 kilowatt hours. The bill was \$174.07 and \$115.06 surcharge for a total with tax of \$303.59. I took that down to the utility here in Juneau just to get some kind of feel--a comparable as to what that might cost in other parts of the state and that same bill down here would have cost \$644.00 for the same amount of electricity. Juneau's surcharge in the month of December was .002 which is a pretty small amount. But that is the whole point of the surcharge. It is used just in order to recoup addition cost on occassion by the use of more expensive fuel. I just hope you wouldn't proceed quickly.

Chairman Bradley stated for the record that the bill d'd have a further referral to Judiciary Committee.

Mr. Bill McConky of the Governor's Office, Director of the Energy Office, was then asked to testify.

We received a packet through the mail also concerning the surcharge question in Fairbanks. There are a couple of background statements. First of all I would like to reiterate what Red said about the corporate irresponsibility of the people to convert to all electric homes in an era when we have extreme energy crisis and high costs. An all electric home in a situation when we have hydro-electric power or another renewal resource is a viable alternative and should be considered. Corporations to be pushing all electric homes in places where we are burning fossil fuel and even coal is corporate irresponsibility. Consequently we have people in Fairbanks who are paying outlandish surcharges. I might add that in Gordon Zerbertz's letter to the point of this bill and I quote: "The surcharge is much larger in the GVEA area and not necessarily due to higher cost of fuel." In the case of GVEA he is admitting that there are other than fuel charges added into this surcharge. Now on the bill itself, we support the bill in concept. The APUC is there for the single purpose that the utilities are kept financially sound and the public is receiving the power at a fair rate. That means they must hold hearings and devise procedures to see that their workload can be handled to the satisfaction of the legislature, the administration and the people going through them. I am not entirely convinced that the commission cannot handle addition workload if they are required to do so. If they are to handle the addition workload, I think it is a legislative decision whether or not additional staffing would be required. It is our position that the large increases passed on to the public without proper hearing should be stopped. That some kind of hearing, even if it is streamlined somewhat less than a full rate hearing takes place. Something should happen so that the public can at least have the confidence that there isn't any unjust increases allowed. That's basically our position on this bill. It a bad situation. I might believe that in the case of GVEA the bill might end up being more, I'm not saying that it would. Red has argued that it might be lower. It might be higher, and if we take the position of both it would even out. Since we are talking about monopolies and the people don't have anywhere to go, they do have the right of a hearing. If nothing else, those people on a fixed income ought to have a place to go to say ladies and gentlemen you are killing me and I can't do this any more. I would make a further suggestion beyond the scope of this bill and that the legislature undertake a study of the APUC, their procedures, for streamlining to see if perhaps the scope of operation could be improved. There are a number of discussion about the APUC, their scope the surcharge bit.

Chairman Bradley asked what the cost would be for a study of this type.

Firms we deal with, you are generally talking about approximately \$50,000 to \$60,000 for a complete management study. That is a high figure.

Bill Corpuz of the Alaska Electric Light and Power Company in Juneau then testified. We do not have a surcharge which amounts to much. We will have serious problems if this bill does pass. The lag time between when the rate is applied for and the effective dates when it is approved. The regular process is very time consuming. Perhaps the increase in staff will not speed up the time needed for a rate increase. Rate increases take from six to nine months. In the longrun it is a disadvantage to the public.

Rep. Wallis stated that the GVEA bit was bad business. I hereby move that this bill be moved out of committee to Judiciary.

Rep. Urion and Rudd objected.

Rep. Urion asked that members of the APUC be heard and possibly other utility companies.

Rep. McKinnon replied that the bill had one more referral to Judiciary.

There being a motion on the floor a vote was called. Kelley, Wallis, McKinnon, and Bradley voted yea. Urion and Rudd voted nea.

The bill passed out of the Commerce Committee.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

OFFICE OF THE GOVERNOR

ALASKA ENERGY OFFICE

338 DENALI STREET - ANCHORAGE 99501
PHONE: 907 272 0527

April 5, 1976

Mr. Samuel J. Speziale, Jr.
1918 Jack Street
Fairbanks, Alaska 99701

Dear Mr. Speziale:

I will attempt to answer a couple of the points in your letter to me of March 17, 1976, and have sent a copy of your letter to Gordon Zerbetz of the APUC for further answers.

The Federal Energy Administration reports to me that there is no evidence of fuel overcharges to utilities, at this time. A continuing monitoring of the relationship will be undertaken.

House Bill #546 was voted out of the Commerce Committee with a "do pass" recommendation and is presently in the Rules Committee, I believe. I would encourage you to communicate with Representative Leslie Swanson, in care of the State House of Representatives, Pouch V, Juneau, Alaska, on this piece of legislation.

Resolution #
McConkey
Field

The Chairman of the Commerce Committee, Representative Bradley, has introduced a resolution requesting a complete analysis of APUC procedures and rate processes. He may be reached at the same address as Representative Swanson.

The APUC is an independent organization. Administrative officials cannot influence their decisions. I would encourage you to communicate directly with the, in care of, Chairman Gordon Zerbetz, APUC, MacKay Building, 338 Denali Street, Anchorage, Alaska.

I am sending copies of your letter and my response to Mr. Zerbetz, Representative Swanson, Representative Bradley, Mr. Tony Motley, Commissioner of the Department of Commerce and Economic Development, and Mr. Fred Chiei, Administrator of the Federal Energy Administration office in Anchorage.

I realize fully that my response does not solve your problem and will add to your frustration with the matter. We share your concern and frustrations and I sincerely and personally wish there was a quick answer to the problem. We are continuing to search.

Sincerely,

William C. McConkey
William C. McConkey
Director

March 17, 1976

RECEIVED

MAR 30 1976

Mr. William C. McConkey, Director
Alaska State Energy Office
Juneau, Alaska

ALASKA ENERGY OFFICE

Dear Sir:

Thank you for your letter of February 10, 1976. While I appreciate the effort of your explanation, some of the points you list are difficult to accept.

How can the A. P. U. C. possibly claim that it doesn't have the staff, manpower, funds, etc., to hold public hearings on projected rate increases? It seems to this writer that this is exactly what they are chartered to do by the State of Alaska!

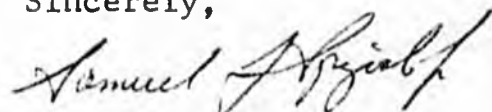
Specifically, where do we stand on your request for a Federal Energy Administration audit of fuel oil suppliers? When can we expect legislative action on House Bill No. 546? The surcharge problem is now reaching crisis proportion while the administrative wheels churn through the red tape. You will soon see people several months behind in their mortgage payments. They don't dare not pay their electric bills or G.V.E.A. will terminate their service. What recourse do they have?

Listed below are the surcharge rates for the past three billing periods: December - .0141180, January - .0165072, February - .201996. Attached is a copy of my latest bill covering the month of February. You will note that the surcharge has now reached the ridiculous figure of 96.4% of the actual electric bill!!! To add insult to injury, the City of Fairbanks tax of 5% is computed on the total bill, surcharge included. This adds another \$9.61 charge for which I have received absolutely no benefit.

I have researched this problem thoroughly in Fairbanks. No longer am I content to join the crowd castigating G.V.E.A. They went to the A.P.U.C. with a rather reasonable request for a 25% increase in charges. The state agency threw it back in their face. As I see it, the problem has been created and maintained by a state agency that is derelict in its duty. If a utility needs a rate increase let the A.P.U.C. get on the ball and hold appropriate hearings and either permit or deny same.

The surcharge method of charging back fuel increases is a farce that cannot be allowed to continue. Somewhere, someone is ripping off the public. Please, your help is needed now. Thank you.

Sincerely,



Samuel J. Speziale, Jr.
1918 Jack Street
Fairbanks, Alaska 99701

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PERIOD		ACCOUNT NUMBER	UNIT NO.	ADDRESS	PHONE	AMOUNT	BILLING DATE		
2/02	--03/05	68-99642	21	42547		9,519	199.40	3/10/76	ELEC 109.40
— DEMAND BILLINGS —									
							FUEL SURCH	RGE	192.21
								DEMAND	
							.00	CHARGE	.00
								TAX	19.58
								MISC	
								ARRARS	.00
								TOTAL DUE	411.26
								BUDGET PLAN	

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