

HB

546

COMMITTEE REPORT

7/17/76

HOUSE

Mr. Speaker:

Date April 14, 1976

The Committee on JUDICIARY has had HB 546

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 HB 546 AND THAT

CS FOR HB 546 DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

[Signature] _____

Members NOT concurring in the Majority report:

[Signature] recommends: [Signature]

_____ recommends:

[Signature] recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

Wants to require public hearings before surcharge can be approved

1. Require Permanent filing within 3 yrs. to use 42.05.411
Temp
2. Require Temp Filing to use surcharge within 1 year

Require hearing for authority to have sur-

1 IN THE HOUSE

BY SWANSON

2 HOUSE BILL NO. 546

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to public utility rates."

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 * Section 1. AS 42.05.381(a) is amended to read:

9 (a) All rates demanded or received by a public utility, or by any
10 two or more public utilities jointly, for a service furnished or to be
11 furnished shall be just and reasonable. A rate may not allow a surcharge
12 or other additional charge not certain in amount whether the surcharge
13 or other additional charge is for compensation to the utility for
14 increased costs or for other purposes. *Mandatory hearings on any rate increases*

15 * Sec. 2. AS 42.05.441(b) is amended to read:

16 (b) In determining the value for rate-making purposes of public
17 utility property used and useful in rendering service to the public, the
18 commission shall be guided by acquisition cost or, if lower, the original
19 cost of the property to the person first devoting it to public service,
20 less accrued depreciation, plus materials and supplies and a reasonable
21 allowance for cash working capital when required. The value of construc-
22 tion work in progress may not be included in the determination of value
23 for rate-making purposes.

ALASKA ELECTRIC LIGHT AND POWER CO.

134 N. FRANKLIN STREET



JUNEAU, ALASKA 99801

(907) 586-2222

February 24, 1976

The Honorable Terry Gardiner
Chairman
House Judiciary
House of Representatives
Pouch V
Juneau, Alaska 99811

Re: House Bill No. 546 entitled "An Act Relating to Public Utility Rates"

Dear Chairman Gardiner:

I am writing this letter in regard to the portion of House Bill No. 546 which would eliminate surcharges on utility bills. The Alaska Public Utilities Commission may allow the use of a surcharge for two reasons: (1) To allow a utility to recover the difference in cost between the current price of fuel and that cost of fuel which was used in establishing that utility's basic rate structure. This type of surcharge, often called a fuel adjustment charge, normally varies from month to month depending upon the cost of fuel. Such a surcharge is billed on the basis of cents per kwh. Enclosed for example are the fuel charges, by month, for the Alaska Electric Light and Power Company for the years 1974 and 1975. (2) The surcharge is also used as a temporary rate increase to cover a period when rate relief is urgently required and yet the time lag between the filing of a permanent rate increase and the time the Public Utility Commission rules on this application is too long for the utility to continue operating without suffering a complete financial collapse. The Commission would normally grant such an increase if failure to do so would prevent a utility from paying its employees or fuel suppliers thereby seriously threatening its continued capability of providing service.

The alternative to the surcharge, whether it be for rapidly changing fuel costs, or for interim rate relief purposes, is for the utility to develop a set of rates and the Alaska Public Utilities Commission to approve such rates on a greatly accelerated basis. The development of such rates by a public utility normally requires a cost of service study and is a very expensive and complex task. Likewise, analyzing a rate structure and determining that the rates are fair and in the public interest is time consuming and expensive. Ultimately the rate payer pays for these costs. The surcharge is a method of preventing the necessity of frequent development of rate structures and giving the Commission sufficient time to analyze permanent rates.

Often interim rates are granted under the condition that the concerned utility may have to refund a portion of the surcharge if the Commissions subsequent investigation concludes that all of the charge was not justified. It is much more practical and less expensive to compute the amount of the refund using a surcharge as opposed to computing the difference using differing rate structures.

The importance of keeping a public utility in a healthy financial posture cannot be over emphasized. You have heard about the generating capacity shortage in various areas of our state. In particular remember Fairbanks and some of the smaller towns to the westward. Sufficient generating capacity during the cold winter months is absolutely essential for their survival. If a utility is not in a healthy financial condition it cannot accumulate nor borrow the necessary funds to install the generating capacity and other equipment that is necessary to meet the needs of its customers. The surcharge is the only practical method of passing on the utility's cost of service to its customers during periods of rapid inflationary change.

I would like to conclude my comments by noting that the surcharge is a common phenomenon throughout the "Lower 48". It is used in numerous states and by the Federal Power Commission and their respective regulatory jurisdictions. It is an accepted practice elsewhere in the utility industry.

Again, I recommend that the proposed amendment to the public utility law outlawing the surcharge not be adopted.

Very truly yours,

William A. Corbus

William A. Corbus
Assistant Manager

enclosure

WAC:akd

Revenue Per KWH - 1974 and 1975

<u>Month</u>	<u>Year</u>	¢ <u>Overall Average Revenue/Kwh (Excluding Fuel Adjustment)</u>	<u>Fuel Surcharge Per Kwh</u> ¢
January	1974	3.8716	-
February		3.7573	-
March		3.9558	-
April		4.0408	-
May		4.0581	-
June		4.0846	-
July		4.0849	-
August		4.1297	.44
September		4.0765	.31
October		4.1066	.28
November		4.1520	.00
December		4.1716	.00
January	1975	3.9850	.12
February		3.9452	.22
March		4.1441	.78
April		3.9418	.56
May		4.1398	.40
June		4.2095	.31
July		4.1533	.49
August		4.0837	.29
September		4.2168	.48
October		4.5708	.34
November		4.5469	.33
December		4.4210	.02

YAKUTAT POWER, INC.
P. O. BOX 257 YAKUTAT, ALASKA 99689
FRED O. MILLER

Phone 784-3248 - Area 907

February 23, 1976

Representative Bob Bradley
Chairman, House Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Sir:

Reference is made to House Bill No. 546.

We are a privately owned electric utility company operating at Yakutat, Alaska, serving 180 customers. Our plant of four diesel electric generating sets is 100% diesel fuel driven, twenty-four hours per day, with no choice of any other fuel.

House Bill No. 546 would place our company in a very disastrous financial position. Our current rate schedule, adopted in 1972, was based on a diesel fuel price of .207¢ per gallon of fuel. Current price of fuel is .405¢ per gallon. Computations below show how the fuel price increase has affected our operating cost.

Fuel costs for a Year at Rates Paid February 1, 1972, Compared to Rates Payable February 1, 1976.

307,403 gal. at .405¢ -----	\$124,498
307,403 ga. at .207¢ -----	63,632
	<u>\$ 30,866</u>

As this computation shows, an operating capital of over \$5,000 more per month is necessary just to pay the increased fuel bill if the company is to continue operating with a return sufficient to pay the monthly bills.

The time element alone would be staggering while waiting for a cost adjustment due to fuel increase. In 1973, we had 8 price increases; 1974, 6 increases; 1975, 3 increases; and in 1976, 1 increase. Each increase could be expected to cost a minimum of \$1,000 in legal fees, and up to six months for approval by the Alaska Public Utilities Commission. In the meantime, where does the money come from to pay the bills?

We urge you to please eliminate House Bill No. 546.

Yours truly,
Yakutat Power, Inc.

Fred O. Miller, President

Fred O. Miller

cc: Terry Gardiner
Red Swanson

Feb 25, 1976

HB 546

Foye Gentry

Alaska Rural Co-op Assoc

Non-profit organizations

AUEC

Cardova

Kodiak

Barrow

Golden Valley

Kotzebue

Chugach

Homer

Mat Elec

74,000 Homes in Alaska

Unanimously oppose - rapid fuel increase
both sections

rate study to document cost
filing 3 to 6 months
hearings
decision

Golden Valley Elec. - surcharge per kilowatt hour

GVA - Bob Hutman

Zerbetz

No statutory Authority Now for surcharges

1974 - 24% coal increase

1975 - 17% " "

2 year oil 119% oil increase

Section B is existing law

Military 21 Mills 36.9 Mills - excess
coal power

Purchase Economy energy from Fai. Elec

Margin 400,000 1975

lost 2,000,000 in 1975 without surcharges

surcharge gives you time to assess till you gain some experience

Fuel surcharge - files Monthly & with documentation to APUC

Tesoro
5.50 10.51 weighted average

Entitlements - Pay difference to other oil producers \$4 million in Nov. to Major oil producer by Tesoro

1967-1970 promoted All electric Houses

No Step down rate for 1500 KW Hours surcharge
" " " " "

Ollie Johnson 2,400 customers

Gordon Zerbetz

- Surcharge - temporary measure

~~Surcharges~~

~~XXXXXX~~

~~XXXXXXXXXX~~

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19 cost of the property to the person first devoting it to public service,
20 less accrued depreciation, plus materials and supplies and a reasonable
21 allowance for cash working capital when required. The value of construc-
22 tion work in progress may not be included in the determination of value
23 for rate-making purposes.



file



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-5551
TELEX 25-187

March 22, 1976

The Honorable Terry Gardiner
Alaska State House of Representatives
Pouch V, State Capitol Building
Juneau, Alaska 99811

Dear Representative Gardiner:

House Bill No. 546 would amend AS 42.05.381(a) and AS 42.05.441(b) in such manner as to restrict the Alaska Public Utilities Commission to a particular course of action in rate matters without discretion to recognize the facts and circumstances which may indicate an alternative treatment to be in the public interest. Accordingly, these amendments should not be enacted by the legislature.

Addressing the latter proposed amendment first, AS 42.05.441(b) would be amended to dictate that "The Value of construction work in progress may not be included in the determination of value for rate making purposes". As a practical matter, a review of decisions by the APUC indicates that construction work in progress is not being included in rate base for rate making purposes, therefore the amendment does not serve to correct an existing abuse. However, there could easily be circumstances where allowing inclusion of construction work might be necessary to encourage or enable a public utility to undertake needed expansion or to add environmental protective facilities. Many Commissions and courts have recognized such treatment. In these circumstances, a statutory prohibition as proposed would be of detriment to the public.

With regard to the proposed amendment of AS 42.05.381(a), which would disallow "surcharge or other additional charge", this amendment would result in chaos to the utility industry and would, in the long run, force Alaskan rate payers who use natural gas and rate payers who use electricity generated by natural gas to pay unnecessarily high prices for their utility services. The reasons are as follows:

- (1) It is not presently possible to contract for substantial future quantities of gas at the present prevailing price without agreeing to some built in variable escalation features. (For example, the supply of state royalty gas we are presently trying to secure would be subject to variable price changes).
- (2) Historically, it takes at least six months plus the substantial costs for filing a rate increase to start



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3888 SPENARD ROAD
P. O. BOX 8288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-5551
TELEX 25-187

Representative Terry Gardiner
Continuation Sheet #2
March 22, 1976

to recover additional costs incurred as a result of fuel or other price increases if the utility company does not have a "flow through" provision in its tariff. Such flow through provisions would be prohibited by the proposed amendment.

- (3) Therefore, the utility has only two courses of action it can take and still maintain its financial integrity. These are:
- (a) Contract for gas at a much higher price than the current prevailing price in order to avoid escalation provisions, or
 - (b) Do not contract for substantial future supplies of fuel.

Either course of action set forth in (3) above will result in much higher prices to the consumer in the long run. This proposed amendment is apparently an attempt to minimize utility rate increases that have resulted from fuel price increases which have been substantial over the prior two or three years. Unfortunately, the bill does not correct the cause of the increases, but irreparably harms the utility company which has been caught in the price squeeze.

The State's position with regard to hydrocarbon fuel prices is rather nebulous. On the one hand, as a major owner of hydrocarbon fuel reserves, the State appears to promote maximum well head prices on hydrocarbons whether used in the State or used elsewhere. This of course militates toward higher utility rates. On the other hand, the legislature appears to view increasing utility rates with alarm and attempts to deal with them by ever more repressive regulation. More regulation inevitably leads to higher costs to serve and to higher rates.

We request your assistance in defeating this bill which can only serve to make a bad situation worse. We would be pleased to meet with you to suggest more positive ways to maintain reasonable prices for utility services to the citizens of the State.

Very truly yours,

Bill B. Hickman
Management Analyst

Dale Teel
President

Haines Light & Power Co., Inc.

P. O. BOX 303

HAINES, ALASKA 99827

February 18, 1976

Congressman
Terry Gardner, Chairman
House Judiciary Committee
House of Representatives
State of Alaska
Pouch V
Juneau, Alaska 99811

Dear Congressman Gardner:

I am writing in regard to House Bill No. 546 which in effect disallows the use of a fuel surcharge which is now being used to pass along the high costs of fuel to the consumer. We realize that it is up to the State to protect the consumer, and being a regulated business it is also up to the State to protect the power companies so that they will receive a fair return on their investment. This Bill would in very short order put any power company out of business and thus deprive the public of power.

The year 1973 was the last year that oil prices were normal. The following is our Profit and Loss for that year.

Gross Income from Sale of Power	\$386,119
Fuel Expenses	149,821
All other expenses	198,929
Net Profit	<u>\$ 37,369</u>

The price of fuel for 1973 was \$.206/gallon. The price of fuel today is \$.367/gallon, a 78% increase. If we paid the latter price in 1973 the fuel would have cost \$116,860 for a net loss for the year of \$79,491 instead of a profit of \$37,369.

A similar comparison can be made in 1975 as follows:
(1st 9 months)

Gross Income from Sale of Power	\$434,524
Fuel Expenses	234,418
All other Expenses	185,046
Net Profit	<u>\$ 15,060</u>

Haines Light & Power
Congressman Terry Gardner

-2-

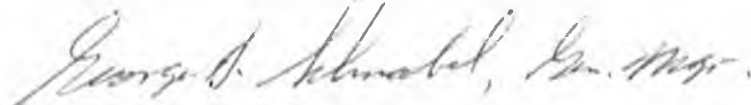
Using the 1973 price for fuel we would have paid only \$131,274 for the period, when in effect we paid \$234,418, a difference of \$103,144. In 9 months this is \$11,460 per month more expense. Reducing this by the monthly profit of \$1673 we would be running a cash deficit rate of \$9,787. In less than two months our cash resources would be gone and the plant would stop because we could not buy fuel.

Perhaps any backers of this bill might say that these surcharges necessitated by fuel cost increases should be handled by regular rate increases. This is naive as any power company would be long out of business waiting for the rate increases to catch up to the spiraling fuel costs.

The State has appointed a Public Utilities Commission to be the watchdog of the utilities. They are hired for their competence and expertise in this field. Everyone in the utility business knew there would be problems when the Arab countries announced the sharp changes to be made in the world oil prices. The Commission made an in-depth study and decided that the "fuel surcharge" method was the only way it could be handled properly. They instigated it, it has been working and has solved the problem in a manner that is fair to the consumer and the utility company. The Commission is constantly on the alert to make sure that no utilities are passing along any rate increases in the form of fuel surcharges. The system has been working well for two years.

Thus it can be seen that House Bill No. 546 should not be enacted as it would be both a disservice to the public as well as the utilities.

Very truly yours,
HAINES LIGHT & POWER COMPANY


George A. Schnabel,
General Manager

cc: Dale Rusnel
Alaska Public Utility Commission

Jan Van Dort
Attorney

YAKUTAT POWER, INC.
P. O. BOX 257 YAKUTAT, ALASKA 99689
FRED O. MILLER

Phone 784-3248 — Area 907

February 23, 1976

Representative Bob Bradley
Chairman, House Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Sir:

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We urge you to please eliminate House Bill No. 546.

Yours truly,
Yakutat Power, Inc.

Fred O. Miller, President

Fred O. Miller

cc: Terry Gardiner
Red Swanson

25
2/24

7:00pm

Brown, Specking, Parr, Gardner

Floyd Gentry - O.P. Ark Elec. Rural Corp

ARECA

hist of many individual companies

Non-profit organizations

Unanimously oppose HB 546. Financially ready to collapse if no surcharge allowed. Do I believe this? Several months to get base rate change.

late study

file

public hearings \Rightarrow 30 day published notice

perhaps 6 months

Construction work in progress 21-22 is not defined. Paying interest on large loans to build.

surcharge is per kwh consumed

Bob Huffman - gen'l manager, Golden Valley, Fairbanks

Oppose^{HB} 546

1974 coal \uparrow 24%

1974-75 19.7 \$/gal \Rightarrow 42.4¢/gal

1975 17.6%

Military contract \Rightarrow excess coal-fired energy

1974 2 mil/kwh

1975 36.9 mil/kwh January 1 - effective immediately

Economy Energy \Rightarrow from Fols municipal

12 mil/kwh \Rightarrow coal-fired steam

18 mil/kwh \Rightarrow diesel

$$\frac{30}{2} = 15 \text{ mil}$$

excess economy
energy
cost to produce
under ^{surplus}
power - diesel

35 mil/kwh from old plant.

~~Oct 1, 1975 Golden Valley~~

Most lower 48 states have higher base rates
and regularly use surcharges. All utilities
in same boat. Hit hard after oil embargo late 1973.
Nat'l gas + coal escalated right along. \therefore fuel
surcharge goes along. There's a regulatory
lag. Must cover excess expenses - need money to
wait out rate base adjustment. 1975 to date, 400,000²²⁰
surplus. If no surcharges ^{forward have} lost \$2,107,350.

1974 \$634,967 margin

1975 \$400,000 "

Return on investment: 4.04% 1974

3.34% 1975

Sept 74 - Apr 75 \$400,000 in additional fuel cost
not covered by surcharge. Total loss.
When fuel supplier retracts cost
increase for fuel - surcharges may not
retroactively charge customers. Must
absorb loss.

Surcharge reflects only actual operating costs
of company^{calculated} on a monthly basis.

\$4,400,000 from Jussano ^{to Maple Oil Company} for "entitlements"

Small companies could not survive another embargo
without surcharges.

Capital and net worth during 74-75

Equity has not decreased in 74. All surcharge money
goes to pay increase in fuel cost and still not fully
recovering. Fuel suppliers send bill after audit of
year end costs.

Cannot predict surcharge in advance \Rightarrow must wait for fuel
mix and rate. Sometimes can buy from excess energy for cheap -
sometimes must generate which is more expensive/kwh. Cost
reflected directly & immediately to customer.

1967-70 promoted total electric. Not since 1970.

1971 \Rightarrow rate reduction 2.2% Ended totally electric
special consideration. 1975 declared moratorium on
electric heat. Step down in usage/kwh when over/under
certain kwh/month. But surcharge is per/kwh no
matter how many kwh/month.

Aug 75 applied for 25% rate increase. 45 days
request suspended. Put hold on request to do complete
1975 year end audit \Rightarrow base new request on audit \Rightarrow
perhaps 35%. Then no more surcharge

█ Sent letters to customers when surcharge imposed.
Radio, TV, newspaper, public hearings.

Olly Johnson. - 20yr manager Kadiak elec. ass.
Kadiak - Port Lyons.
exchange power w/ Coast Guard

Oppose HB 546

Should regulate oil suppliers - not companies.
Must buy from certain suppliers \Rightarrow cannot put out
competitive bids - APCA

1974 - 7 changes in 1 month

1975 - 7 more changes

Building \$600,000 plant paying
\$300,000 annually in interest on loan.

David Niles - ghee
100 member co-op

since 1970 not increases in fuel, but AJ rate
increases court decisions. AJ? AELP
 \approx labor increases

6.7% - 20.4% surcharges.

1974 surcharge increase due to fuel increases
Brentisham with standby from AELP
cost of standby is in surcharge. Now have own
standby \Rightarrow cost passed on to customer as surcharge
for fuel costs.

Bill Corbus Asst. Manager
AELP Serves majority of Juneau
Smethisham is now working.
During breakdowns must surcharge for fuel.

Need to have change on monthly basis \Rightarrow expedite base rate changes?
in one month

APUC react to rate increase in few months
APUC will not accept future increase estimates

Korbitz - APUC

surcharge is fuel rate making policy
but only solution to fuel increases

Full cost then vs. now

base rate chosen by company

20¢/gal base then	35¢/gal now
-------------------------	----------------

$35 - 20 = 15 \text{¢}$ = surcharge to customer in $\frac{\text{¢}}{\text{kwh}}$
 $\frac{\text{k produced}}{\text{kwh sold}}$

8:58