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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Gordon J. Zerbetz, Chairman
 Marvin R. Weatherly
 Carolyn S. Guess
 Susan M. Knowles

In the Matter of the Reasonableness and)
Propriety of the Interfund Charges Borne)
by the MUNICIPALITY OF ANCHORAGE Tele-)
phone, Electric, Water and Sewer Util-)
ities)
_____)

U-76-26

ORDER NO. 2

ORDER APPROVING INTERFUND METHODOLOGY

On May 3, 1976, the MUNICIPALITY OF ANCHORAGE
d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT (ML&P), ANCHORAGE
TELEPHONE UTILITY (ATU) and the ANCHORAGE WATER UTILITY
(AWU) was advised of the information to be provided with the
Commission at a public hearing on June 1, 1976, for the
purpose of determining the justness and reasonableness of
the interfund charges paid to various departments within the
Municipality by the above named utilities. The burden of
proof that the interfund charges paid by ATU, ML&P and AWU
were based on reasonable methodology and accurate allocation
factors under the affiliated interest transactions as stated
in AS 42.05.511(c) was to be borne by the Municipality.

JURISDICTION

The Municipality asserted, prior to the examination
of the interfund charges, its belief that the affiliated
interest section of the statute, AS 42.05.511(c), did not
specifically affect the Municipality whose departments

provide services to the utilities. It was argued that no profit is to be earned by the Municipality through the interfund charges; there is no majority shareholder as in a private corporation; and the interfund charges must be approved through the budgetary process by the appropriate legislative body. The staff of the Commission contended that the Municipality does fall under the provisions of the statute by providing services to and receiving payment from each of the subject utilities and that the Municipality should bear the burden of proof that these charges are just and reasonable. The Commission concurs with the staff's position.

GENERAL BACKGROUND

The government entity which provided services to the above named utilities in 1974, 1975 and for the first nine months of 1976 is conceptually a different entity than is in existence today and on which the proposed 1976 budget of the Municipality is based. For the purpose of this proceeding the test year under consideration was 1975. The charges to the utilities in that year, by the providing departments of the Municipality, were used to ascertain the reasonableness and accuracy of the allocations of interfund charges. These charges were budgeted in 1974 for 1975 under the existing City of Anchorage government. The test year 1975 was used because of the permanent rate requests by ATU, M&P and AWU pending before this Commission. For the most part, their request is based on this test year. In addition, the fact that the unified government, known today as the Municipality of Anchorage, has been in existence a relatively

short time, the workload of various departments has changed substantially, and the new government is in effect in a transitory state, make an examination of the budgeted 1976 interfund charges inappropriate at this time.

The testimony of the Municipality strongly recommended that a re-evaluation of the methodology of determining interfund charges and of the appropriateness of the existing allocation factors was of paramount importance for the 1977 fiscal budget of the Municipality. Every department should be analyzed as a result of the unification of the former City of Anchorage and the Greater Anchorage Area Borough now known as the Municipality of Anchorage. Various functions and responsibilities within some departments of the new Municipality have undergone major changes. These changes have affected the kinds of services provided as well as the methods used for allocating costs for services to any or all of the utilities.

The need for a study which would thoroughly review each department within the Municipality and examine the interfund procedure has been addressed by Arthur Young and Company in the course of a data processing study.

In light of unification, examination of services which might better be performed outside the Municipality through the contracting procedure should be made. There appear to be three possible courses of action for the utilities regarding the purchase of services from within the Municipality. One, the interfund charges could continue to be handled in the same manner as previously done by the City. This would require that the methodology and allocation

factors be updated in terms of a unified government. Two, the utilities could provide some or all of the services to themselves that are now being provided by the Municipality. Three, there could be services that should be contracted outside the Municipality. In addition, the subject of the appropriateness of interfund charges for the sewer utility should be addressed. If the refuse service provided by the former City of Anchorage comes under the jurisdiction of this Commission, interfund charges to that utility must also be examined.

For the purpose of this hearing the Municipality defined interfund as a charge by one department within the municipal government (whether the former City of Anchorage or the present Municipality of Anchorage) to another department within the government for services performed. The Municipality submitted Exhibits 1 and 2 which provided the budgeted and actual amount of interfund charges to ATU, ML&P, AWU and the general government unit (which includes those departments receiving monies from the general fund) and the total amount of all budgeted and actual interfund charges for the years 1974 and 1975. Exhibit 3 provided the budgeted interfund charges for the year 1976. The Uniform System of Accounts has been used since 1973 for the preparation of the 1974, 1975 and 1976 budget.

The budgetary process includes input from the supervisory personnel within each department, the review of the City Budget Officer (now the Chief of Management Services for the Municipality in the Office of Budget and Management), any refinement or change to be made by the

Office of the City Manager (now by the Office of the Mayor) and submission to the City Council (now the Municipal Assembly) for its approval. The implementation of methodology and allocation factors regarding interfund charges are based on the approved budget document for the appropriate fiscal year.

It should be noted that the interfund charges were a subject of audit by the external auditor hired by the governmental body. The appropriateness of ATU's interfund charges was also reviewed by RCA Alaska Communications, Inc., in its determination of the separation and distribution of toll revenues. In addition, the State performed auditing functions for particular grant money that the Municipal government receives.

During the hearing there was testimony that in some instances charges are made to each of the utilities by a department not listed on Exhibits 1 through 3. For example, a service provided a utility by the Department of Public Works at the request of the utility is paid for by a transfer of equity in the cash pool. A reimbursable work order form, Exhibit 29, illustrates the procedure to be utilized in this regard. Bills for services provided by the utilities to other departments within the government are also paid by a transfer of equity in the cash pool.

In Order No. 1 the Commission required the Municipality to provide a copy of any written instructions to the appropriate person within each department calculating the interfund charges. Exhibit 27, Interfund Criteria Information, was provided as well as Exhibit 28, a copy of the 1975

annual budget which explained the "charges to others" within each department. The individual computing the budgeted and actual interfund charges and the methodology and allocation factors for those charges were provided in Exhibits 4 through 25 as required by Order No. 1. Also included in these exhibits were comparable charges, where available, and time sheets and other recordkeeping data, when used.

The Commission commends the Municipality on the thoroughness of its prefiled testimony and the presentations made by the witnesses during the hearing and will discuss each department providing services to any or all of the subject utilities in 1975. For the purpose of this discussion reference will be made to the titles of individuals and the governmental unit based on the former City of Anchorage. Where appropriate, reference will be made to the existing municipal government. It is the intention of the Commission that this discussion may be beneficial to those individuals who will review and study the interfunded services and charges in the new unified government.

The transfer of interfund charges is done monthly on the basis of the actual costs to the providing department. Any end of the year adjustments either upward or downward are made in accordance with the allocation factors outlined within each department. Reference has been made to final charges in some of the exhibits for the 1975 test year. Generally speaking, these refer to charges incurred by departments as a result of unification and these charges were not interfunded to the utilities.

MAYOR AND CITY COUNCIL

The method for calculating the budgeted interfund charges from the Mayor and City Council to each of the subject utilities was developed by the City Budget Officer in 1972. His judgment based on observation of work sessions and City Council meetings was used to apportion the workload of the Mayor and City Council into the following categories:

Agenda relating items	50%
Personnel functions	20%
Maintenance and operations budget	15%
Capital improvement program	15%

Within these categories of workload the City Budget Officer established the allocation factors for each utility on an annual basis.

The City Budget Officer analyzed the final agendas of 8 City Council meetings in different months of 1974 to establish the percentage of agenda items relating to each utility. The charges to each utility for the workload of Mayor and City Council relating to personnel functions were expressed as a percentage of the projected authorized positions for each utility in relation to the total authorized positions for the City. The charges for the maintenance and operations budget and for the capital improvement program were expressed as a percentage of each utility's budget in relation to the entire maintenance and operation budget and capital improvement program for the City. These percentages were weighted and applied to the actual 1975 expense of this department by the Controller Division.

In addition, each utility was charged \$600 as its cost for the expenses of its advisory board. These

lay boards met monthly, and their members were paid a small stipend. The determination of these charges was made by taking the total amount of monies expended to the City boards and commissions and dividing it by 20. (There were 20 advisory boards.)

This department has undergone substantial change as a result of unification, and Exhibit 3 illustrates the separation of the Assembly from the Mayor/Manager Department for interfund purposes. The appropriateness of the workload categories and the accompanying allocation factors for each utility should be examined for the 1977 budget year.

CITY MANAGER

The calculation of interfund charges for services provided by this department to the utilities was the responsibility of the City Budget Officer. The allocation of workload was made to the identical categories as those in the Mayor and City Council Department. The percentage of time allocated to those categories varied slightly. The reason for this was that the personnel within this department were asked for their evaluation of time spent on work relating to these categories. The judgment of the City Budget Officer who had spent five months as Assistant City Manager, in addition to his observations of work sessions and City Council meetings, was also a criterion.

Within each category, (agenda related activities, personnel functions, maintenance and operation budget, and capital improvement program) the percentage of workload for each utility was calculated in the same manner as for the Mayor and City Council. The actual expense to each utility was calculated by the Controller Division who applied the

weighted percentage to the actual expense of the City Manager's Office less the dollars attributable for one administrative assistant and secretary whose specialized tasks had provided no service to the utility.

In 1975 the expense of this department included the functions of Labor Relations Specialist, Equal Employment Officer and Public Information Officer. It should be noted in the budgeted interfund charges for fiscal year 1976 that some of these functions have been removed from this department and the City Manager is combined with the Mayor. An evaluation for the 1977 budgeted interfund charges will be necessary for this department.

The City Budget Officer gave testimony that a time study had been attempted for this department but was not successful because the personnel did not accurately or adequately fill out the time sheets. Time cards were also proposed at one time for the Mayor and City Council but this idea was rejected.

INTERNAL AUDIT

The calculation of interfund charges from this department was the responsibility of the Internal Auditor working with the City Budget Officer. The actual interfund charge to the utilities was calculated by multiplying the actual auditor hours spent on each utility by the predetermined cost per hour. The hourly charge was based on the salaries and overhead of the department as outlined in Exhibit 6a. Testimony was received that the hourly rates charged by this department are readjusted as personnel changes and pay increases for Municipal employees take

effect. Exhibits showing that substantially higher costs would be incurred if these services were purchased outside the Municipality were provided. The Internal Auditor, who calculates the actual charges of this department, has an on-going workload and is able to estimate with accuracy his charges to others for budgetary purposes. He also works with staff of various departments to help determine his costs based on their needs.

COMMUNITY PROMOTION

The calculation of interfund charges from this department were performed by the Public Information Officer and the City Budget Officer on the basis of two costs: one, the cost of membership to the City in the Alaska Municipal League and the Alaska Chamber of Commerce and, two, the space distribution in the 1974 annual report.

The determination of each utility's cost for the Municipal League and Chamber memberships was allocated on the ratio of the number of employees per utility to the total number of City employees. The allocation for space in the annual report was expressed as a percentage of each utility's space in relationship to the entire cost of the annual report.

Testimony was given that through an inadvertent error the cost of the membership fees was not interfunded for the 1975 test year. It is the intention, however, of the Municipality to allocate the expense of these memberships in the future. In addition, the Municipality has decided to discontinue the publication of the annual report after 1975.

CITY CLERK ADMINISTRATION

The calculation of these interfund charges was the responsibility of the City Clerk working with the City Budget Officer. The services provided by the City Clerk to the subject utilities in this docket are the costs incurred by the Clerk's Office in providing services to the utility advisory boards and commissions. These services include recording secretaries, transcribing minutes, overhead, mailing, etc. The actual charge, calculated by the Controller Division, was based on 1/20 of the total cost of providing services to all of the City boards and commissions. There was testimony that in the future these charges will not be interfunded but will be services provided internally by each utility.

CITY CLERK - RECORDS RETENTION

The calculation of these interfund charges was the responsibility of the City Clerk working with the City Budget Officer using their previous experiences in providing the service of microfilming records of various departments. The actual charges were for the services received, and the cost was determined on an hourly charge based on salaries and overhead. The form for a participating department to request microfilming was provided as Exhibit 32. Time sheets were kept by the personnel in this department for the calculation of the actual cost. When budgeting for this service, a utility would consult with the City Clerk, Records Retention personnel to determine, based on the requested work, what the projected costs would be. It is noted that for the test year 1975 there were no charges to AWU and very minimal charges to ATU and MLSP.

CITY ATTORNEY

The calculation of these charges was the responsibility of the City Attorney working with the City Budget Officer and the actual charges were calculated by the Office of the City Attorney. A retainer was charged to each utility and the Port as its portion of the maintenance of the City Attorney's files, reference library and overhead. It should be noted that there was no retainer allocated to the general government departments. The attorney time was allocated at \$60 a billable hour, for the year 1975; each attorney kept a record of his workload attributable to the utilities. Testimony was given that at the present time and for the test year 1975, there was no form for the attorneys to fill out, and in some instances time keeping was noted on desk calendars and in other inappropriate ways. Various expenses associated with litigation were allocated to the appropriate utility. The City Budget Officer stated in the event of a monetary award by the Courts in favor of a utility those monies were directly apportioned to that utility.

If a utility would contract with an attorney outside the City Attorney's staff, the cost associated in this matter would be billed directly to the utility.

PROPERTY MANAGEMENT

The calculation of interfund charges by this department was done by the Property Management Officer working with the City Budget Officer. This division is the Office of Record for all real property including rights-of-way, buildings and any non-movable equipment that is Municipal property.

A retainer was charged to each utility and the general government unit which covered the salary, benefits and space allocated to the Records Clerk. The volume of records kept for each utility and general government unit was a factor taken into consideration in determining the retainer. The retainer was instituted by the City Attorney in 1974, when Property Management came under his supervision. It is now separate and the reasonableness of the retainer should be re-evaluated.

The actual interfund charge was the budgeted retainer plus the actual charge of \$17.50 an hour for appraising and right-of-way land acquisition. The hourly cost was based on an analysis by the Internal Auditor of the salary and overhead in this department. The Property Management Officer and the Controller Division calculated the actual charges.

The Municipality provided through Exhibit 11a comparable hourly costs of independent appraisers. The charge by the property management division to each utility was significantly less than the cost charged by an independent appraiser.

ADMINISTRATIVE SERVICES, ADMINISTRATION

The calculation of these charges was the responsibility of the City Budget Officer in consultation with the Assistant City Manager, Administrative Services, the Staff Accountant, and the Financial Management Systems Accountant. The charges to the utilities were expressed as a percentage of the total workload of the above mentioned personnel. Their workload was analyzed by the City Budget Officer

utilizing his best estimate and expertise based on the time these individuals spent on utility matters in four areas: current operating budget; existing capital improvement program; projected bond sales; use of the computerized accounting system. The actual charge, calculated by the Controller Division, was determined by applying the weighted percentages to the actual 1975 expense of this department. The actual charges for 1975 were less than the budgeted amount. The reason given was that vacancy factors were greater than budgeted, so the interfund charges were adjusted backwards on the basis of the calculated weighted percentages. The personnel of this department review their work load annually with the City Budget Officer to determine the percentage of time spent on utility matters.

This department is the Office of Management and Budget for the 1976 budget year.

CONTROLLER

The calculation of the interfund charges of this department, which was the general accounting arm of the City, was the responsibility of the Controller and staff working with the City Budget Officer.

Three categories of costs are analyzed to determine the percentage of time spent on utility matters. The first category, regular charges, (accountants' time in the general accounts payable category), allocated its costs for the 1975 test year based on desk audit time studies performed over a one month period. The Controller selected the time period and both daily and hourly time studies were

performed. Exhibit 13a was provided, which was the desk audit time sheets for November 1974. The employees were responsible for interpretation of workload and filling out time sheets.

The second category was the payroll system. The allocation factors for each utility were arrived at by determining, through desk audit time studies for a month and an analysis of payroll transactions for each utility, the workload for each utility expressed as a percentage of the total workload of this division.

The third category was the financial management system (FMS), and these costs were allocated on the basis of desk audit time studies over the same monthly period along with an analysis of the FMS transactions for each utility. This included computer machine time that the Controller used for each utility in addition to those charges allocated directly by the data processing department through the interfund process. The weighted average of the allocation percentages in each of the three categories, regular charges, payroll systems, and FMS was applied to the actual 1975 controller expense, and calculated by this department.

TREASURY

The calculation of the interfund charges of this department was the responsibility of the Treasurer and staff working with the City Budget Officer.

The Treasury was responsible for the receipt and custody of all funds for the City, including utility monies. The Treasurer, supervisor of this department, was responsible for the investment of all funds including utility bond

funds and handles all street and water assessments. Exhibit 30 was provided to show the monthly reports made by the Treasurer indicating the status of all cash and investments of the Municipality.

There are three sections under the Treasury Department: Receipts and Custody, Parking Violations and Assessments. The Treasurer made the determination that half of the administrative expense of this department be allocated as overhead equally to these three sections. This allocation became a part of the costs of service provided by each section.

Charges to each of the subject utilities for services rendered by the Receipts and Custody Section were based on a one week time study in 1974 in which the individuals working in this section performed a physical count of transactions handled. A sample of the time sheet was not available because of the relocation of this department and the disposal of these records. The actual expense to each utility was expressed as a percentage of the total cost of processing all transactions by this section.

Parking Violations did not affect any of the subject utilities.

The allocation of the Assessment section interfund expense was also based on a one week time study in 1974 of those individuals working in the section based on the number of hours spent on each assessment problem. It should be noted that the only utility requiring these services is AWU. The actual interfund expense of the Assessment Division was

expressed as a percentage of AWU's cost in relation to the entire cost of this section.

The remaining half of all interfund expenses of the Treasury Department was allocated to each utility and the general government unit based on their average equity in the investment accounts during the two months prior to the 1975 budget preparation. This was expressed as a percentage of the total equity investment of the City and applied by the Controller Division to the actual costs of this department.

For the 1977 budget, the sewer utility will have substantial impact on this department. Also, testimony was received that many different funds will be handled by this department as a result of unification. The methodology used to determine interfund charges for this department needs re-evaluation in light of unification.

PRINT SHOP

The calculation of the interfund charges for this department was the responsibility of the utility managers working with the City Budget Officer, and actual charges were computed by the Print Shop Supervisor in accordance with the Print Shop Prices provided as Exhibit 15a. These prices were based on salaries and overhead.

It should be noted that there was over a 400% increase in the budgeted and actual amounts interfunded in this category for ATU and AWU in 1975. Testimony was given that the probable reason for this was that ATU ordered a series of new forms, having used up forms that had been purchased from an outside supplier. As a result the initial cost was con-

siderably greater than a normal year's usage. A price sheet from Ken Wray's Print Shop substantiated the fact that the Print Shop prices are anywhere from one-third to over 100% less than the same service offered by a private business.

COURIER AND MAIL

The calculation of the interfund charges of this department was the responsibility of the City Budget Officer and actual charges were computed by the Mail Room Clerk and the Controller Division.

The allocation factor used to determine the amounts budgeted to each utility was based on an analysis of the current courier schedule (1974). The number of courier stops which served each utility was expressed as a percentage of the total amount of stops. This percentage became each utility's allocation of the actual costs of this department.

It should be noted that for 1975 ATU received no service from this section because the demands of this utility became sufficient to justify hiring its own employee to provide this service. Testimony was given that the minimum amount of times the courier serves ML&P and AWU was four times daily.

The mailroom charges were the result of joint utility mailings (not customer billing) and were minimal. Each utility has its own postage machine so these charges are no longer interfunded.

INSURANCE AND CLAIMS (RISK MANAGEMENT)

The calculation of the interfund charges for this department was the responsibility of the Insurance/Claims

Officer working with the City Budget Officer. The allocation of these charges was based on two categories: claims activity and insurance activity.

The actual cost of processing claims filed against the City was calculated on a cost per claim basis and charged to the appropriate utility. A quarterly report was made indicating the number of claims filed against each utility and the general government unit, the total expense of processing those claims and the calculation of charges to each utility. Exhibit 17a detailed the 1975 claims against each of the subject utilities and provided work sheets used to determine the cost of each claim based on this department's overhead to process these claims. It was emphasized that this charge is only to process claims and does not reflect payment to any third party.

The cost of providing insurance coverage to the various utilities during 1975 was allocated by weighing the type of insurance and coverage for each utility. Testimony was given regarding the diversified needs and numerous kinds of insurance needed by the utilities and the general government unit. It is apparent that this is an extremely complex subject. The judgment and experience of the Insurance/Claims Officer (Risk Manager) was the basis for the percentage of interfund charges allocated to each utility for insurance activity. The actual amount interfunded to ATU in this division doubled for the year 1975. The reason for this substantial increase was the requirements by OSHA to establish a safety program which heretofore was in the Personnel Department. The costs of this Safety Section were interfunded on the basis of the number of authorized positions

within the utility and general government unit and the percentage applied to the actual expense of this Section.

The Municipality has undertaken a self insurance program in some areas which is not reflected in the 1975 test year. There may be a decrease in expense related to insurance coverage but this will be offset by an increase in the expense of the claims activity. It will be necessary to re-examine the interfund charges in this division because of this new undertaking.

PERSONNEL

The calculation of the interfund charges by this department was determined by the Personnel Director and staff working with the City Budget Officer.

The allocation factors established for 1975 budget purposes were determined by a two-step process. The cost for employee/labor relations, records, and safety training was allocated based on each utilities percentage of the total employees in the City at the time the budget was prepared. The Safety Section was transferred to Risk Management thereby reducing the actual cost of this service.

The recruitment and classification costs of this division were allocated on the total number of classified employees in each utility expressed as a percentage of the total number of City classified employees at the time the budget was prepared. The actual expense to each utility, computed by the Controller Department, was determined by applying the weighted average of these two percentages to the actual 1975 expense of this department.

DATA PROCESSING

The calculation of the interfund charges by this department was prepared by the Data Processing Manager and

staff working with the City Budget Officer. The actual charges were computed by the Data Processing Manager and staff.

The Data Processing Department was responsible for computer time and the personnel to analyze, program, key-punch, if necessary, and maintain the computer programs. Testimony was given that there is presently no unused computer time; the machine is running beyond capacity and is working 24 hours a day, seven days a week. The Municipality is also utilizing mini-computers during the current year (1976) and is considering the purchase of a larger computer. No attempt had been made by the City, prior to unification, nor the present Municipality to contract for these services. The 1975 budgeted expenses were calculated by the computer on the basis of man months and projected cost estimates to accomplish the workload each utility requested. The actual expense was based on computer time utilized during 1975 and was calculated by a special built-in program designed for that purpose. The employees of this department kept time sheets (Exhibit 31) tracking their workload and assessing the proper utility. The hourly rates charged by this department for various data processing personnel were provided in Exhibit 19B.

Testimony was given on the plans for merging the computer systems of the former City and Borough and a possible purchase of computers as opposed to present leases. January 1977 is the target date for an integration of the two accounting systems, and this will dictate a re-evaluation of the charges for this department's services.

increase

companies had increased 88% from 1970 to 1974 or nine times the rate of increase of the natural gas industry. Based on the uncontroverted evidence presented by AGAS, the Commission will allow use of a year-end rate base.

Staff testified that AGAS is currently in the process of developing continuing property records (CPRs). At the present time property records are maintained on a ledger card system. AS 42.05.461 requires utilities with annual revenues over \$100,000 to utilize CPRs for plant records. It will be incumbent on AGAS to achieve compliance with this statutory obligation within the timetable prescribed by the Commission.

There was general agreement among the parties regarding the reasonableness and propriety of all components of plant in service as proposed, with the exception of property purchased from the affiliate, 3000 Spenard Corporation. At issue was the determination of the appropriate value to be assigned to that property in the rate base. AGAS has included the land in rate base at the sales price paid to 3000 Spenard Corporation, which was based on an independent appraisal performed in May 1974. The staff proposed a valuation equivalent to the original cost to 3000 Spenard Corporation with the possible capitalization of certain costs for not more than two accounting periods at the discretion of the Commission. Staff opposed the inclusion of intercompany profits in the rate base and cited a 1945 Supreme Court case as principal support for its position. The burden of proof in this issue clearly resides with AGAS, pursuant to AS 42.05.511(c) which provides:

"(c) In a rate proceeding the utility involved has the burden of proving that any written or un-

written contract or arrangement it may have with any of its affiliated interests for the furnishing of any services or for the purchase, sale, lease or exchange of any property is necessary and consistent with the public interest and that the payment made therefor, or consideration given, is reasonably based, in part, upon the submission of satisfactory proof as to the cost to the affiliated interest of furnishing the service or property and, in part, upon the estimated cost the utility would have incurred if it furnished the service or property with its own personnel and capital."

Additionally, AGAS has directed the Commission to the first part of AS 42.05.411(b) for guidance:

"(b) In determining the value for rate making purposes of public utility property used and useful in rendering service to the public, the commission shall be guided by acquisition cost or, if lower, the original cost of the property to the person first devoting it to public service,..."

The properties under consideration are situated in Kenai, Eagle River, and Anchorage. The Anchorage property is comprised of three parcels on International Airport Road designated as the Operations Center. Rental payments on the former Operations Center on Spenard Road are also tangentially relevant due to the timing of the transition from the old to the new location. The dates and amounts of the purchases and sales by 3000 Spenard Corporation and the intervening rentals by AGAS are summarized on Appendix 1.

The principal business activity of 3000 Spenard Corporation, the Alaskan subsidiary of Baldwin Properties, Inc., a subsidiary of AKI, is property investment and disposition. The company is represented in Alaska by Vice President Richard Barnes, who is also an officer and employee of AGAS and APC. Mr. Barnes testified that he spends between one to two percent of his time on 3000 Spenard Corporation responsibilities. The company's current portfolio of investments is an office building in New Orleans

and 25 parcels contiguous to AGAS' office building. The only property previously owned by 3000 Spenard Corporation and not sold to AGAS was a 22 acre parcel on Kodiak. This property was sold to a company which was concurrently acquiring the assets of a former subsidiary of AKI, Burgess.

AGAS originally leased all the properties it purchased from 3000 Spenard Corporation with the exception of Parcel C on International Airport Road. A representative lease agreement (Exhibit 47), dated January 1, 1969, between the parties provided for a 15% return on the appraised valuation with re-appraisals at 5 year increments during the 16 year term of the lease. The Chief Appraiser, State of Alaska, Division of Lands, a witness for intervenors AkPIRG and Jager testified that based on his studies of the private market, the market rate for leases on bare ground with appraisals at five year increments was currently 8% and was in the 6-8% range in 1969. There was testimony that in late 1973, the decision was made by AGAS, pursuant to an unwritten option or right of first refusal, to purchase the subject properties from 3000 Spenard Corporation. As a result, there was an informal agreement between the parties for conservative rent escalation without re-appraisals for 1974 and for termination of the leases at December 31, 1974, by mutual consent. In February 1974, 3000 Spenard Corporation purchased Parcel C on International Airport Road. The appraisals on which the sales prices were based were completed in May 1974. Approximately 33% of the Eagle River parcel was sold by 3000 Spenard Corporation to the State of Alaska in October 1974, for \$48,000. The sale of the properties to AGAS was consummated in December 1974, timed to

coincide with the availability of financing. Rents paid on acquired properties were eliminated from the test year. The land, site improvements, and transportation building at International Airport Road were included in the rate base. However, since the remaining buildings at that site were completed after the end of the test year and were not incorporated in rate base, AGAS retained the expenses associated with the Spenard Road Operations Center in its operating expenses as a representative substitute for the new Operations Center. AGAS argued that this approach was conservative and thereby fair. The transition was completed in May of 1976. It is the opinion of the Commission that the treatment proposed by the utility is not unreasonable.

Section 511(c) of AS 42.05 establishes certain tests for evaluating the reasonableness and propriety of affiliated interest transactions. Property leases and sales such as those under discussion must be necessary and consistent with the public interest. Payments made therefore must be based, in part, on the cost to the affiliated interest of furnishing the property and, in part, on the cost the utility would have incurred if it had furnished the property with its own capital.

AGAS argued that the cost to 3000 Spenard Corporation of furnishing the properties was equivalent to the price it would have received for the parcels from another party at the time of the transaction, which, in turn, was equivalent to the cost AGAS would have incurred if it had purchased identical or similar properties from a third party at that time. This definition of cost is not in conformance with standard accounting nomenclature and would appear

to circumvent the intent of AS 42.05.511(c) to prohibit excessive intercompany profits. Affiliated interest transactions require the highest scrutiny by this Commission. The interpretation proposed by AGAS would preclude such a review. While the utility may argue that AGAS would have paid as much or more for similar purchases from non-affiliates, the fact remains that the sales between affiliated interests offer to the common parent immediate benefits, including favorable capital gains tax treatment of 3000 Spenard Corporation's profits, which mandate circumspection.

A review of the land activities and portfolio of 3000 Spenard Corporation in Alaska would indicate that the company has functioned historically as a land agent for AGAS. At least one parcel was rented to AGAS at the same time as its purchase, and one parcel was purchased after AGAS had apparently committed itself to re-purchase the land. The Commission is not inclined to substitute its judgment for that of management, but it is appropriate to question whether or not investments were incurred prudently by a utility in exercising its responsibility to serve the public. The timing and amounts of the land purchases certainly raise doubts. The staff has argued that intercompany profits should be prohibited regardless of an assessment of the degree to which an affiliated transaction was conducted at arms length. It has cited Colorado Interstate Gas Co. v. Federal Power Commission, 334 U.S. 581, 65 S. Ct. 829, 89 L. Ed 1206 (1945), to support its position.

It is the determination of the Commission based on the evidence presented on the record that the properties purchased from 3000 Spenard Corporation should be included

in rate base at the original cost to 3000 Spenard Corporation. An allowance will be added to the base amount, where applicable, for capitalization of the return, at the rate established by this Order, which would have been earned on properties purchased in advance of being placed in service for a reasonable period of time not to exceed two accounting periods. The resulting valuations are detailed on Appendix 1.

The original cost of plant in service is reduced by the year-end accumulated depreciation. The staff has proposed an adjustment to the asset life of the headquarters building from 20 to 33 years to conform with the depreciation rate utilized by AGAS for other structures and with Internal Revenue Service (IRS). AGAS has argued that it is inappropriate to make isolated changes in depreciation rates without a complete depreciation study, which is scheduled to be performed in the next year or so. However, if the Commission approved the adjustment proposed by staff, it would be equally appropriate to reduce the life expectancy of communications equipment from 33 to 12 years as proposed by AGAS. The staff concurred with this recommendation. The Commission cannot overlook the obvious inequities in the depreciation schedule as filed in the permanent rate request. The Commission does not agree with AGAS' assertion regarding itemized review and modification of the depreciation schedule and will endorse both depreciation adjustments.

Another component of rate base proposed by AGAS is a gas plant acquisition adjustment, less accumulated reserve for amortization. Prior to 1967, the stock of APC was owned 50.41% by AKI and 49.59% by Union-Marathon (U-M). AKI had Class A voting stock; U-M had Class B non-voting stock,

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THE STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Gordon J. Zerbetz, Chairman
Marvin R. Weatherly
Carolyn S. Guess
Susan M. Knowles
Stuart C. Hall

In the Matter of the Filing)
of a Tariff Revision, Desig-)
nated as TA 12-89, by KENAI)
UTILITY SERVICE CORPORATION)
for Permanent and Interim Rate)
Relief and a New Rate Design)
Schedule)

U-79-32

ORDER NO. 4

ORDER ACCEPTING STIPULATION

The Commission will accept the Stipulation dated September 5, 1979 executed by Kenai Utility Service Corporation and the Staff of the Commission, but subjects its acceptance of this Stipulation to the following express conditions:

- (1) Kenai Utility Service Corporation shall file on or before October 22, 1979 amended tariff sheets reflecting the rates and rate design approved by acceptance of this Stipulation;
- (2) Kenai Utility Service Corporation shall refund or credit the accounts of those customers that have been charged a rate on an interim basis that is in excess of those approved by this Stipulation;
- (3) Kenai Service Corporation shall file with its 1979 annual report the time record form to be used by the President of the utility, Mr. J.M. Covington, to accurately reflect the percentage of his time and his expenses attributable to utility business;
- (4) Kenai Utility Service Corporation shall file the time

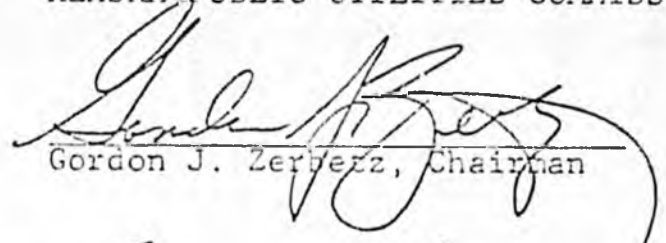
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1160 WACKAY BUILDING
338 DENALI STREET
ANCHORAGE, ALASKA 99501
PHONE 276-4222

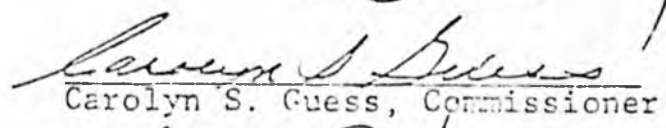
1 record of Mr. Covington for the calendar year 1980 with
2 it: 1980 annual report to the Commission;
3 (5) Kenai Utility Service Corporation shall demonstrate to
4 the Commission by year-end 1980 that its continuing
5 property records exist in a form satisfactory to the
6 Commission.

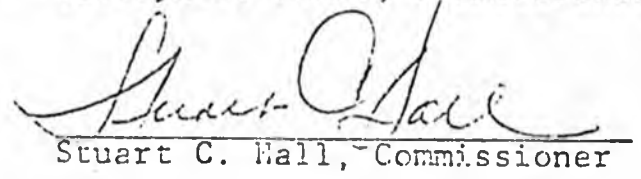
7 IT IS SO ORDERED.

8 DATED AND EFFECTIVE at Anchorage, Alaska this 26th day of
9 September, 1979.

ALASKA PUBLIC UTILITIES COMMISSION


Gordon J. Zerbez, Chairman


Carolyn S. Guess, Commissioner


Stuart C. Hall, Commissioner

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29 (S E A L)
30 U-79-32(4)
31 Page 2
32



1
2 STATE OF ALASKA

3 THE ALASKA PUBLIC UTILITIES COMMISSION

4 Before Commissioners:

Carolyn S. Guess, Chairman
Marvin R. Weatherly
Susan M. Knowles
Stuart C. Hall
Diana E. Snowden

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8 In the Matter of the Filing of)
9 Tariff Revisions by PELICAN) U-81-89
UTILITY COMPANY for Fuel Cost)
10 Rate Adjustments at Sand Point,) ORDER NO. 10
Alaska)
11 _____)

12 ORDER GRANTING PERMANENT APPROVAL OF NEW FUEL SURCHARGE AND
13 ESTABLISHING THE CALCULATION FOR FUTURE SURCHARGE FILINGS

14
15 BY THE COMMISSION:

16 On December 2, 1981, in Order No. 1 of this proceeding,
17 the Commission suspended permanent approval of three fuel sur-
18 charge filings, designated as TA20-230, TA21-230, and TA23-230,
19 filed by PELICAN UTILITY COMPANY (Pelco) for its Sand Point ser-
20 vice area. In that Order the Commission raised questions about
21 Pelco's fuel purchase arrangement with an affiliated interest,
22 Pelican Distributing Company (PDC), and the methods used in the
23 three filings to calculate kilowatt-hour (KWH) sales.

24 On the former matter, the Commission noted that in AS
25 42.05.511(c) it is clear that a utility has the burden of proving
26 that a purchase arrangement with an affiliated interest is neces-
27 sary and consistent with the public interest. On the latter
28 matter, the Commission's concern centered on Pelco's subtracting
29 five percent of its generation as a line loss to arrive at KWH
30 sales. (A reduction in KWH sales causes an increase in the sur-
31 charge, and vice versa.) The Commission directed Pelco to reduce
32 the billed surcharges to eliminate the effect of the five percent

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1 reduction to KWH sales and to refund to its customers the excess
2 revenues collected. In addition, the Commission approved, on an
3 interim basis, surcharges recalculated without the five percent
4 reduction to KWH sales.

5 Subsequently, in Orders Nos. 3, 4, 5, and 8 in this pro-
6 ceeding, the Commission granted interim refundable approval to
7 five other surcharges. In each of the latter, Pelco had calcu-
8 lated the surcharge without making a five percent reduction to its
9 KWH sales. Order No. 6 noted that the Commission Staff (Staff)
10 and Pelco had agreed that the five percent reduction should not be
11 made to KWH sales. Thus, the remaining issue was the reasonable-
12 ness of Pelco's fuel purchase agreement.

13 On December 28, 1981, Pelco filed an analysis to justify
14 its fuel purchase arrangement with PDC. The analysis calculated
15 an annual expense to Pelco of \$75,520 if the utility were to in-
16 stall and maintain its own tanks and fueling facilities. The
17 utility's analysis was based on annual operating expenses associa-
18 ted with the purchase of fuel tanks, including a 15.7 percent rate
19 of return on the additional rate base, five-year depreciation
20 lives for the tanks, and a \$1,200 annual maintenance expense
21 thereon.

22 The Staff analyzed this filing and noted that the cal-
23 culations and estimates provided were not supported but appeared
24 reasonable with the exception of the depreciation lives of the
25 tanks. Pelco estimated an annual depreciation expense of \$23,400
26 based on an original cost of the tanks of \$117,000. Staff noted
27 that the shortest life to be used for storage tanks would be
28 20 years, which would mean an approximate \$17,000 reduction to the
29 annual depreciation expense. In addition, Staff noted that the
30 rate of return calculation of 15.7 percent was greater than the
31 14.4 percent return recently approved for Pelco in Docket U-81-54.

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1 This difference in return amounted to an approximate \$2,300 dif-
2 ference in revenue, but Staff believed the difference was immate-
3 rial if the revenue requirement for the storage tanks was adjusted
4 for the depreciation expense reduction caused by the change in the
5 service lives of the storage tanks. Staff maintained that the
6 \$17,000 depreciation adjustment, based on the longer life, was the
7 only appropriate reduction to the revenue requirement calculated
8 by Pelco.

9 Staff, therefore, calculated that the revenue require-
10 ment on the tank and fueling facility would be approximately
11 \$58,250 (\$75,520 - \$17,000). After review of the present differ-
12 ence between the price PDC pays for its fuel and the price PDC
13 charges Pelco, Staff concluded that the utility had provided prima
14 facie evidence that there would be no significant difference be-
15 tween (a) a total revenue requirement for Pelco including costs of
16 fuel purchased from PDC and (b) a total revenue requirement in-
17 cluding the utility's costs of installing and maintaining its own
18 tanks and fueling facilities.

19 However, Staff did believe that a serious potential
20 problem existed concerning the price of fuel to be used in future
21 FCRA filings. In particular, the method by which PDC calculates
22 the dock price and Pelco's revenue requirement on the tank facil-
23 ity cannot be reconciled in determining a reasonable cost justi-
24 fication for future rate proceedings.

25 Pelco is billed by PDC at a variable rate above the
26 Chevron price billed to PDC. The PDC price to Pelco (the dock
27 price) is 25 percent above the Chevron price to PDC less 15¢ per
28 gallon. However, the gallons consumed vary from period to period.
29 For example in a recent surcharge filing, TA35-230, Pelco showed
30 an annual fuel consumption of 465,454 gallons. In the test year
31 (1980) used to calculate the revenue requirement in U-81-54, the
32 yearly fuel consumption was 516,049 gallons. Thus, the actual

1 annual expense to Pelco associated with its purchase of fuel from
2 PDC varies. The expense increases with both increases in con-
3 sumption and increases in the per-gallon price of fuel.

4 In effect, what is happening is that there is a fixed
5 cost (Pelco: \$75,520; Staff: \$58,250) associated with installa-
6 tion of the fuel tanks, but PDC's revenue is based on a variable
7 reimbursement (the product of 25 percent of the Chevron price less
8 15¢ per gallon multiplied by the gallons sold). The yearly ex-
9 pense associated with Pelco's installation and maintenance of the
10 tanks will not change significantly from year to year, but the
11 revenue received by PDC may change significantly based on the
12 price and amount of fuel purchased by Pelco. The annualized reim-
13 bursement to PDC on the basis of the recent surcharge filing,
14 TA35-230, is \$52,131. This amount is based on a dock price of
15 11.2¢ per gallon above the Chevron price (11.2¢ per gallon price
16 differential times annual fuel consumption of 465,454 gallons
17 equals \$52,131).

18 Staff advised the Commission of three alternative solu-
19 tions for dealing with this problem. The first alternative would
20 be for PDC to charge (interfund) Pelco a flat yearly expense asso-
21 ciated with the tanks and charge Pelco the same fuel price per
22 gallon that PDC pays Chevron. This solution would necessitate an
23 adjusted revenue requirement and a change in the base price of
24 fuel for surcharge calculations.

25 A second alternative would be for Pelco to install the
26 tanks and purchase fuel directly from Chevron. As in the alterna-
27 tive above, an adjusted revenue requirement would have to be cal-
28 culated.

29 A third alternative proposed by Staff would be to allow
30 PDC to continue to use the present method of determining its price
31 to Pelco, and Pelco would be required either to install the tank
32

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1 farm or to interfund an annual expense in its next revenue re-
2 quirement application presented to the Commission. Under the fuel
3 price to Pelco from PDC which is reflected in TA35-230, the util-
4 ity appears to be paying PDC less than it would cost Pelco to in-
5 stall and maintain its own fuel tanks. Staff recommended that if
6 this alternative were adopted, a ceiling of 12.5¢ per gallon
7 should be placed on the differential between PDC's price to Pelco
8 and the Chevron price to PDC. The 12.5¢ per gallon figure was
9 calculated by dividing the cost of installing and maintaining the
10 fuel tanks by the annual fuel consumption reflected in TA35-230
11 (\$58,250 divided by 465,454 gallons equals 12.5¢ per gallon).
12 This ceiling would protect the consumer if the price of fuel were
13 to increase. Under this alternative, Pelco would not have to re-
14 calculate the base price of fuel and would be allowed to continue
15 its present surcharge computation until PDC's price to Pelco ex-
16 ceeded the Chevron price by more than 12.5¢ per gallon. If the
17 price charged Pelco by PDC exceeded the Chevron price by more than
18 12.5¢ per gallon, Pelco would calculate the current fuel cost as
19 the Chevron price plus 12.5¢ per gallon.

20 Staff expressed its belief that the third alternative
21 was the most practical solution. Pelican's customers would be
22 protected by the 12.5¢ ceiling discussed above, and in the next
23 permanent rate proceeding the utility would have the option to
24 adopt an interfund or to install and maintain its own fuel tanks.

25 The Commission concurs with Staff's analysis and be-
26 lieves that Pelco's present method of calculating fuel surcharges
27 should be used unless the price charged Pelco by PDC exceeds the
28 Chevron price by more than 12.5¢ per gallon. In that case, the
29 maximum current price used in the surcharge calculation will be
30 the Chevron price per gallon plus 12.5¢ per gallon. In its next
31 permanent rate relief request Pelco either should file its revenue
32 requirement with the tank farm included in rate base or determine

1 an appropriate yearly interfund between PDC and Pelco to reflect
2 the fuel storage service provided by PDC.

3 THE COMMISSION FURTHER FINDS AND CONCLUDES:

4 1. The fuel surcharges previously approved on an in-
5 terim basis in this proceeding should be allowed on a permanent
6 basis.

7 2. Pelco should be allowed to continue its present
8 method of calculating the current cost of fuel in surcharge
9 filings unless PDC's price to Pelco (the dock price) exceeds the
10 Chevron price by more than 12.5¢ per gallon. Then Pelco should
11 calculate the current cost as the Chevron price per gallon plus
12 12.5¢ per gallon.

13 3. In conjunction with its next rate filing, Pelco
14 either should install the tank farm and include it in Pelco's rate
15 base or should interfund an appropriate annual expense associated
16 with use of the PDC tank farm.

17 ORDER

18 THE COMMISSION FURTHER ORDERS:

19 1. The fuel surcharges previously approved on an
20 interim, refundable basis in this proceeding for the Sand Point
21 Division of Pelican Utility Company are approved on a permanent
22 basis.

23 2. Pelican Utility Company shall continue to calculate
24 its fuel cost rate adjustment surcharges for its Sand Point Divi-
25 sion in the same manner as previously calculated unless the dock
26 price exceeds the Chevron price to Pelican Distributing Company by
27 12.5¢ per gallon. If the price to Pelican Utility Company exceeds
28 the 12.5¢ per gallon limit, the allowed price shall be the Chevron
29 price plus 12.5¢ per gallon.

30 3. In its next permanent rate relief request, Pelican
31 Utility Company - Sand Point Division either shall install the
32 tank farm and include it in rate base or charge an appropriate

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1 annual interfund expense from Pelican Distributing Company to
2 Pelican Utility Company - Sand Point Division for use of these
3 fuel storage facilities.

4 DATED AND EFFECTIVE at Anchorage, Alaska this 26th day of Octo-
5 ber, 1982.

6 BY DIRECTION OF THE COMMISSION
7 (Commissioner Susan M. Knowles, not participating)



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for permanent rate increase

1 increased by \$83,124 to \$9,430,369 to reflect the increase
2 in purchased power costs to \$.016705 per KWH. (Exhibit 13).

3 Staff reviewed the utility's expenses and adjustments
4 and found them reasonable and proper with one exception, dereg-
5 ulation expense. MEA accumulated the total cost of \$36,600 for
6 the deregulation election in two subaccounts, labor costs of
7 \$15,982 and other expenses of \$20,618. Staff maintained that
8 the labor cost component represented a normal recurring expense
9 which should be expensed in the current period. Staff amortized
10 the remaining costs over a two-year period with the net result
11 of increasing MEA's pro forma operating expenses by \$17,141 to
12 \$9,447,510 including the additional increment of wholesale
13 power costs per Exhibit 13 with which Staff concurred. The
14 utility did not object to Staff's treatment of deregulation
15 expense.

16 MVCAC suggested three specific adjustments to MEA's
17 operating expenses. First, the intervenor stated that the
18 utility's contributions to Susitna Power Now, which totalled
19 \$1,000 during 1980, should be disallowed under AS 42.05.381.
20 This section of the Commission's governing statute provides in
21 pertinent part that:

22 No rate may include an allowance for costs of
23 political contributions, or public relations
24 except for reasonable amounts spent for

- 24 (1) energy conservation efforts;
- 25 (2) public information designed to promote
26 more efficient use of the utility's
27 facilities or services or to protect
28 the physical plant of the utility;
- 29 (3) informing shareholders and members of
30 a cooperative of meetings of the utility
31 and encouraging attendance; or
- 32 (4) emergency situations to the extent and
under the circumstances authorized by
the commission for good cause shown.

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1 Second, MVCAC argued that deregulation expenses
2 should be reduced by \$5,305 (Exhibit 3) for advertising expenses
3 which it also believed were in violation of AS 42.05.381. The
4 consumer group further recommended that no future deregulation
5 elections "be funded without a petition of 20% of the member-
6 ship prior to any future expenditures by MEA." (T-7, p. 2).

7 Third, MVCAC averred that the savings experienced by
8 MEA for reductions in its premiums for property and liability
9 insurance should be passed on to the ratepayers as a reduction
10 in operating expenses. The cost of property insurance coverage
11 was reduced by \$2,745 per Exhibit 2 and of liability insurance
12 coverage by \$81 (\$75,217 minus \$74,980 times 29 percent).

13 The Commission concurs with Staff's recommendation
14 that the labor component of the deregulation election costs be
15 fully expensed in the test year, since it is an ongoing oblig-
16 ation of the utility.

17 The Commission also believes that expenses for ad-
18 vertising MEA's position in the deregulation election in 1980 -
19 - both in newspapers and on the radio -- should be disallowed.
20 An examination of the text of advertising placed by MEA Board
21 and management in the newspapers circulating in the MEA service
22 area during the course of the election reveals numerous false
23 statements and errors of both fact and law. (Exhibit 3). For
24 example, one appearing in the Chugiak-Eagle River Star on Sep-
25 tember 18, 1980, stated that even if economically deregulated,
26 MEA still would "be fully regulated by REA" and that the "REA
27 will regulate rate adjustments." That statement is false and
28 misleading. As MEA's management is aware, the REA does not pass
29 on the reasonableness and propriety of the rates MEA or any
30 other electric cooperatives charge for electric energy. As the
31 utility's "banker", REA's sole interest is whether the revenue
32 MEA earns from its rates is sufficient to pay back the loans

1 made to MEA for construction projects and expansion of its
2 services. Another ad asserted, without listing any examples,
3 that the Commission was "less sensitive to local economic con-
4 ditions than the MEA Board" and that APUC regulation did not
5 permit MEA "to carry out the stated preference of its members
6 regarding rate adjustments, that of smaller incremental rate
7 changes." That, too, is false. The MEA Board determines when
8 that utility's rate filings are made. Obviously the less fre-
9 quently rate increases are requested, the larger the percentage
10 increment is apt to be. Moreover, the MEA General Manager ad-
11 mitted under cross-examination that he ordered the MEA drafting
12 department to "reconfigure" the standard artwork of the cari-
13 cature symbol (an animated electric plug) supplied by the
14 National Rural Electric Cooperative Association (NRECA) to mem-
15 ber cooperatives for the deregulation election campaign in the
16 election. Thus, in the display advertisements in question, the
17 caricature appears swinging a baseball bat at alleged "unnec-
18 essary regulation" (Valley Sun, Eagle River Sun, Frontiersman,
19 Chugiak-Eagle River Star); using a pair of shears to, presum-
20 ably, eliminate "red tape" (Valley Sun, September 16, 1980);
21 painfully straining to obtain release from an animal trap
22 (Chugiak-Eagle River Star, September 4, 1980); and removing a
23 ball and chain (Valley Sun, Eagle River Sun, Frontiersman,
24 Chugiak-Eagle River Star, Anchorage Times, Anchorage Daily News).
25 In short, the Commission believes that the misleading text of
26 the so-called "Pro" and "Con" arguments that appeared in the
27 display advertisements, as well as the doctored caricature, un-
28 fairly weighted the advertising campaign in favor of the MEA
29 Board's position on deregulation. The entire MEA-sponsored
30 campaign lacked the fairness and balance surely contemplated by
31 the Legislature under AS 42.05.712.
32

1 For the foregoing reasons the Commission will allow
2 the expenses essential to the mechanics of conducting the
3 election, e.g., ballot printing, mailing and tabulation, but
4 believes the expenses of \$5,305 associated with MEA's adver-
5 tising campaign should be rejected. The balance of \$15,312 in
6 other deregulation expenses will be amortized over two years in
7 equal annual installments. The two-year period appears reason-
8 able inasmuch as AS 42.05.712 allows a utility to conduct
9 deregulation elections at two-year intervals.

10 MVCAC has suggested that a petition of 20 percent of
11 the membership be required prior to the cooperative expending
12 funds on any future deregulation election. The Commission
13 believes this recommendation would posit an unreasonable impedi-
14 ment to operation of the law governing deregulation elections.
15 In particular, the Commission notes that the numerical threshold
16 proposed for spending funds is higher than that established
17 under AS 42.05.712(b) for a quorum or deciding vote in the
18 election. While it cannot adopt MVCAC Recommendation No. 5,
19 the Commission will continue to monitor the amount and scope of
20 deregulation expenses to assure their reasonableness and pro-
21 priety.

22 MVCAC's argument to disallow the utility's contri-
23 butions to Susitna Power Now is rejected without prejudice to
24 its resubmission. There is virtually no evidence on the record
25 with respect to the appropriateness of this expenditure, and it
26 would be improper to base a decision solely on general awareness
27 of the environmental and economic debate surrounding the Susitna
28 hydroelectric project. The Commission also recognizes that
29 this issue affects other utilities and therefore, believes that
30 it should be considered with the benefit of a fully-developed
31 record.

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DISSENT OF SUSAN M. KNOWLES, COMMISSIONER

I dissent from the decision of the majority with respect to the disallowance of \$5,305 for advertising expenses associated with the deregulation election.

The issue of the reasonableness and propriety of the amount and amortization period for deregulation expense is an issue of first impression before the Commission. It is also a matter of some sensitivity in that the Commission must perform its oversight responsibility without inhibiting, or appearing to inhibit, the deregulation option allowed by the Legislature in AS 42.05.712.

It is apparent that MEA incurred substantial expenses in the course of publicizing and administering its first deregulation election. In addition, legitimate questions have been raised with respect to the objectivity of the copy used for advertising the deregulation issue and the election. Nonetheless, disallowance of all or a portion of this expense involves a subjective assessment which I find difficult to justify considering both the record and possible infringement of rights under AS 42.05.712.

Given the facts and circumstances in the instant case, I would allow the full depreciation expense but extend the amortization period to three years to recognize both the extraordinary costs associated with this initial election and the questionable reasonableness of some expenditures.

Susan M. Knowles
by *og*

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1 submit progress reports on a quarterly schedule, or sooner if
2 substantive developments occur with respect to the gas supply
3 contract negotiations. Further, once negotiated, the contracts
4 themselves should be submitted to the Commission for approval.

5 3. Continuing Property Records System. Upon review of
6 this utility's prior rate proceeding, the Commission finds that
7 ENSTAR has not complied with the directive in U-75-95(7) in which
8 the Commission ordered the utility to institute a continuing
9 property records (CPR) system, as required by AS 42.05.461, on or
10 before September 30, 1976. Despite the failure of ENSTAR to
11 comply with the Commission's prior order, the Commission perceives
12 that the utility now intends to proceed in good faith. Accord-
13 ingly, the Commission accepts as reasonable the utility's estimate of
14 one year to complete its new CPR system. ENSTAR will be required
15 to institute the CPR system not later than October 31, 1983.
16 Staff will then be required to review the CPR system to assure its
17 compliance with the statute and to report the results of that
18 review to the Commission.

19 4. Management Fees Paid to Parent Corporation. The
20 Commission finds that ENSTAR has not fully met its burden of proof
21 that the intercompany management fees paid to its parent corpora-
22 tion are just and reasonable. However, the Commission believes
23 that the amount actually paid during the test year is not unrea-
24 sonable when compared to the figures approved in the last perma-
25 nent rate case wherein a more exhaustive audit was conducted by
26 Staff to verify this expenditure. For this reason, the \$611,000
27 in intercompany management charges will be accepted for purposes
28 of this proceeding, but the acceptance will be conditional upon
29 the requirement that ENSTAR submit by April 29, 1983, a new, more
30 auditable contract for Commission approval. The Staff should then
31 file a report with the Commission providing its criticisms or
32 suggestions for changes in the contract formula.

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1 5. Advertising Expenses. Upon review of the testimony
2 and evidence on the record, the Commission finds that the expenses
3 associated with ENSTAR's sponsorship of public television program-
4 ming are clearly and appropriately categorized under the Commis-
5 sion's regulations as "good will advertising." While this aspect
6 of ENSTAR's advertising is reflective of a laudable civic commit-
7 ment, nonetheless it also reflects the utility's desire to enhance
8 its public image. Furthermore, this expenditure does not fit into
9 one of the allowable public relations expense categories
10 described in AS 42.05.381(a). Accordingly, \$30,296 in advertising
11 expenses should be disallowed for ratemaking purposes as expressly
12 provided under AS 42.05.381(a) and 3 AAC 50.500.

13 6. Lobbying Expenses. Although the Commission recog-
14 nizes that there may be instances in which a utility perceives
15 that certain congressional or State legislation is not in its best
16 interest, the Commission's interpretation of AS 42.05.381(a),
17 particularly in conjunction with 3 AAC 50.500(a)-(c), its consid-
18 eration of the weight of regulatory precedent, and its limited
19 intent as expressed in U-78-4(33), collectively dictate that
20 \$18,000 in lobbying expenses incurred during test year operations
21 should be disallowed. In addition to any legal restrictions, the
22 Commission observes that when a utility claims direct benefits to
23 its ratepayers as a result of lobbying efforts, the utility is
24 presuming to determine without the prior knowledge or consent of
25 its ratepayers what pending legislation is or is not beneficial to
26 them. Alternatively, even if the Commission were to determine the
27 appropriateness of a given lobbying effort on a case-by-case
28 basis, the Commission, in attempting to rule on the question of "
29 clear showing of demonstrable benefits to ratepayers," would be
30 required to offer judgments on such issues as: Is the Legislature
31 (or Congress) acting wisely in changing existing laws? What type
32 of proposed legislation should be defeated? Should a utility be

1 reimbursed for meritorious but unsuccessful lobbying efforts? How
2 should legislation beneficial to one utility's ratepayers but
3 detrimental to others be treated?, etc. In sum, even if the Com-
4 mission were to artfully circumvent the statute (AS 42.05.381(a))
5 and disregard its own regulations (3 AAC 50.500), the fact that
6 the Commission would be required to render such subjective and
7 judgmental decisions with respect to direct ratepayer benefits
8 effectively relegates political lobbying in this and all future
9 proceedings as the proper expense of a utility's stockholders.

10 7. Rate Case Expenses. The Commission will allow
11 ENSTAR an upward adjustment in rate case expenses to \$61,598
12 amortized over three years, on the basis of estimates found rea-
13 sonable during the hearing, subject to the submission of documen-
14 tation to fully support all actual expenses at the end of both
15 this phase and the rate design phase of the proceeding. Addi-
16 tionally, the Commission will allow the utility the option of
17 requesting a further adjustment if documented rate case expenses
18 for the rate design phase of this proceeding exceed the utility's
19 projections.

20 8. Treatment of \$3.2 Million Line of Credit. Histori-
21 cally, the Commission has not permitted short-term debt to be
22 treated as a component of a utility's debt capital structure.
23 Because ENSTAR has not offered any justification for changing this
24 policy, the Commission believes that the \$3,200,000 line of credit
25 should be deleted from the cost of capital computation.

26 9. Consolidated Federal Income Taxes. The Commission
27 reaffirms the policy previously articulated in U-75-95(16) and
28 U-78-4(33) that the benefits which result from the filing of a
29 consolidated federal income tax return must be shared equitably
30 with the utility and its ratepayers. For the purpose of estab-
31 lishing the federal income tax allowance in cost of service, the
32

Alaska Public Utilities Commission
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ALASKA PUBLIC UTILITIES COMMISSION
1400 Westway Building, 350 Denali Street
Anchorage, Alaska 99501
Phone 276-6222

1 submit progress reports on a quarterly schedule, or sooner if
2 substantive developments occur with respect to the gas supply
3 contract negotiations. Further, once negotiated, the contracts
4 themselves should be submitted to the Commission for approval.

5 3. Continuing Property Records System. Upon review of
6 this utility's prior rate proceeding, the Commission finds that
7 ENSTAR has not complied with the directive in U-75-95(7) in which
8 the Commission ordered the utility to institute a continuing
9 property records (CPR) system, as required by AS 42.05.461, on or
10 before September 30, 1976. Despite the failure of ENSTAR to
11 comply with the Commission's prior order, the Commission perceives
12 that the utility now intends to proceed in good faith. Accord-
13 ingly, the Commission accepts as reasonable the utility's estimate of
14 one year to complete its new CPR system. ENSTAR will be required
15 to institute the CPR system not later than October 31, 1983.
16 Staff will then be required to review the CPR system to assure its
17 compliance with the statute and to report the results of that
18 review to the Commission.

19 4. Management Fees Paid to Parent Corporation. The

20 Commission finds that ENSTAR has not fully met its burden of proof
21 that the intercompany management fees paid to its parent corpora-
22 tion are just and reasonable. However, the Commission believes
23 that the amount actually paid during the test year is not unrea-
24 sonable when compared to the figures approved in the last perma-
25 nent rate case wherein a more exhaustive audit was conducted by
26 Staff to verify this expenditure. For this reason, the \$611,000
27 in intercompany management charges will be accepted for purposes
28 of this proceeding, but the acceptance will be conditional upon
29 the requirement that ENSTAR submit by April 29, 1983, a new, more
30 auditable contract for Commission approval. The Staff should then
31 file a report with the Commission providing its criticisms or
32 suggestions for changes in the contract formula.

1 5. Advertising Expenses. Upon review of the testimony
2 and evidence on the record, the Commission finds that the expenses
3 associated with ENSTAR's sponsorship of public television program-
4 ming are clearly and appropriately categorized under the Commis-
5 sion's regulations as "good will advertising." While this aspect
6 of ENSTAR's advertising is reflective of a laudable civic commit-
7 ment, nonetheless it also reflects the utility's desire to enhance
8 its public image. Furthermore, this expenditure does not fit into
9 one of the allowable public relations expense categories pre-
10 scribed in AS 42.05.381(a). Accordingly, \$30,296 in advertising
11 expenses should be disallowed for ratemaking purposes as expressly
12 provided under AS 42.05.381(a) and 3 AAC 50.500.

13 6. Lobbying Expenses. Although the Commission recog-
14 nizes that there may be instances in which a utility perceives
15 that certain congressional or State legislation is not in its best
16 interest, the Commission's interpretation of AS 42.05.381(a),
17 particularly in conjunction with 3 AAC 50.500(a)-(c), its consid-
18 eration of the weight of regulatory precedent, and its limited
19 intent as expressed in U-78-4(33), collectively dictate that
20 \$18,000 in lobbying expenses incurred during test year operations
21 should be disallowed. In addition to any legal restrictions, the
22 Commission observes that when a utility claims direct benefits to
23 its ratepayers as a result of lobbying efforts, the utility is
24 presuming to determine without the prior knowledge or consent of
25 its ratepayers what pending legislation is or is not beneficial to
26 them. Alternatively, even if the Commission were to determine the
27 appropriateness of a given lobbying effort on a case-by-case
28 basis, the Commission, in attempting to rule on the question of "a
29 clear showing of demonstrable benefits to ratepayers," would be
30 required to offer judgments on such issues as: Is the Legislature
31 (or Congress) acting wisely in changing existing laws? What types
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1 reimbursed for meritorious but unsuccessful lobbying efforts? How
2 should legislation beneficial to one utility's ratepayers but
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12 amortized over three years, on the basis of estimates found rea-
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15 this phase and the rate design phase of the proceeding. Addi-
16 tionally, the Commission will allow the utility the option of
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18 for the rate design phase of this proceeding exceed the utility's
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21 cally, the Commission has not permitted short-term debt to be
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29 consolidated federal income tax return must be shared equitably
30 with the utility and its ratepayers. For the purpose of estab-
31 lishing the federal income tax allowance in cost of service, the

32

Please deliver to Ren Johnson
House Labor & Commerce
Committee

Fiscal Note Analysis SSHB 220

Assumptions:

1. This bill could create significant new jurisdiction for the Alaska Public Utilities Commission.
2. The new jurisdiction is in an area of regulation for which the Commission has little or no expertise and will have to develop that expertise through the addition of staff and the training of that staff. It is assumed that the term distributing added to AS 42.05.720(4)(c) does not include retail sales.
3. Legal analysis suggests application of this legislation will create legal challenges.
4. Fiscal counter-effect of the deregulation of refuse utilities will be negligible when compared to the other jurisdictions which will be created as a result of passage of this bill.

Program Summary:

- A. Historical background and comparison of SSHB 220 with last session's HB 365.
 1. During the last legislative session HB 365 was introduced by Representative Koponen which specifically addressed the regulation of oil refineries. The Commission fiscal note concerning that bill stated that in order to accept this jurisdiction, the Commission would incur additional expenditures in operating categories 100 - 500. In addition, the Commission contacted the National Association of Regulatory Utility Commissioners and discovered that no other state commission regulates oil refineries as a utility.
 2. The broadness of SSHB 220, expands jurisdiction far beyond the regulation of oil refineries. Based on legal analysis, the Commission anticipates that this bill, if passed and made law, could result in much litigation concerning the scope and constitutionality of the expanded jurisdiction.

B. EXPENDITURE REQUIREMENTS

As in the fiscal note regarding HB 365, this bill would require that the Commission be provided with additional state expenditures. These requirements, and how they differ from last year's fiscal note related to HB 365 are listed below.

100 - Personal Services

Minimum needs have been addressed. Positions required are:

Technical: 1 Utility Engineer IV
 1 Utility Financial Analyst III

Support: 1 Consumer Protection Information Officer II
 1 Utility Tariff Analyst II
 1 Administrative Support Technician II

(There is no change in requirements above the level in the fiscal note accompanying HB 365.)

200 - Travel

Funds will be required for training travel and regulatory travel. Travel for FY 1985 is higher based on a one-time need for extensive training in order for the Commission to regulate the new jurisdictions.

300 - Contractual

Additional contractual funding will be needed to provide three items:

a. Funding for legal counsel to handle the litigation associated with the new APUC jurisdictions. As stated above, if passed, it is anticipated there will be much litigation concerning the constitutionality and scope of jurisdiction.

b. APUC staff does not have any experience or expertise in regulation of the additional jurisdictions. Therefore, it will be necessary to provide substantial training to the two technical positions created to handle the new jurisdiction. Existing staff and Commission members will also need some training in these areas in order to reach proper conclusions and decisions in the regulatory process.

c. Some computer software must be provided in order to put the additional jurisdictions into the APUC data base.

400 - Commodities

There will be a requirement for additional commodities for the new positions which will be established as a part of the new workload.

500 - Equipment

In addition to the equipment associated with the new employees, the Alaska Public Utilities Commission wishes to go

on record to stress the importance of the passage of its capital budget request for an expanded computer system within the APUC. (Copy is attached).

In last year's fiscal note re HB 365 the Commission had asked for additional funding to enhance its existing computer system. Since that time the situation has changed dramatically. Based on present and projected usage, the Commission and the Department of Administration Division of Data Processing, have recommended that the present system be replaced by a larger one. Those projections did not include the addition of such a broadly based jurisdiction as possible in this bill.

600 - LAND AND STRUCTURES

The Alaska Public Utilities Commission is already short of space in its present location. Additional personnel will require additional space.

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
(Assumption: program basing FY 85)						
-----100-----						
SAL & BENEFITS		Note: Figures for FY 85..FY89 do not include merit increases or any negotiated salary inc				
CP OFFICER, R 17A	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00
VE IV, R 21C	\$60,041.00	\$60,041.00	\$60,041.00	\$60,041.00	\$60,041.00	\$60,041.00
UFA III, R 21A	\$56,741.00	\$56,741.00	\$56,741.00	\$56,741.00	\$56,741.00	\$56,741.00
UTA II, R 17A	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00
AST II, R 8A	\$25,542.00	\$25,542.00	\$25,542.00	\$25,542.00	\$25,542.00	\$25,542.00
	\$228,815.00	\$228,815.00	\$228,815.00	\$228,815.00	\$228,815.00	\$228,815.00
-----200-----						
TRAVEL-TRNG	\$5,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TRAVEL - OTHER	\$15,000.00	\$5,300.00	\$5,618.00	\$5,955.08	\$6,312.39	\$6,312.39
	\$10,000.00	\$5,300.00	\$5,618.00	\$5,955.08	\$6,312.39	\$6,312.39
-----300-----						
LEGAL COUNSEL	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00
Add'l SOFTWARE	\$5,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1st YR TRAINING	\$25,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	\$80,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00
-----400-----						
5 pos times \$400	\$2,000.00 *	\$2,120.00 *	\$2,247.20 *	\$2,382.03 *	\$2,524.95	\$2,524.95
*=6% inflation fac						
-----500-----						
5 pos times \$1200	\$6,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2 pos times \$1000	\$2,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	\$8,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
-----600-----						
add'l office	\$13,992.00	\$13,992.00	\$13,992.00	\$13,992.00	\$13,992.00	\$13,992.00
4P010125 SQ.FT.EA						
15P6083 SQ.FT.EA						
EQ 583 SQ.FT						
TIMES \$2.00 TIMES						
12 MONTHS						
GRAND TOTAL	\$342,802.00	\$300,222.00	\$300,672.20	\$301,144.11	\$301,664.39	\$301,664.39

1.	POSITION TITLE (CONSUMER PROTECTION & INFORMATION OFFICER)			RANGE/STEP 17A	DARG. UNIT G	FORM 12 PAGE/LINE	COV.	APPROV.	DISAPP.																												
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER (NEW)	BRU PRIORITY 1	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.																													
3.	CONTINUATION LEVEL			ADDITION																																	
4.	TYPE OF EXPENDITURE			AMOUNT																																	
	1		2		3																																
PERSONAL SERVICES																																					
5.	Salary		33084																																		
6.	Benefits		5402																																		
7.	Supplemental Benefits		2028																																		
8.	Fixed Benefits		2728																																		
9.	TOTAL PERSONAL SERVICES		01		43242																																
10.	Travel		02		0																																
11.	Contractual		03		0																																
12.	Commodities		04		400																																
13.	Equipment		05		2025																																
14.	Other Office Space 125SQFT (P01) x 12 mo				3000																																
15.	TOTAL COST @\$2.00 sq.ft.				48667																																
JUSTIFICATION																																					
<p>The additional level of public contact which would result from this additional regulatory workload would require the addition of another Information Officer position. This level would provide an interim between the Consumer Protection Officer II lead position and the Consumer Protection entry level.</p> <p>As with other sections, there is no further room for expansion of duties without an increase in personnel. In addition, there is no existing office space to house additional personnel.</p>																																					
<table border="1"> <thead> <tr> <th>RECEIPT CODE</th> <th colspan="2">FUNDING SOURCE</th> <th>AMOUNT</th> </tr> </thead> <tbody> <tr> <td>16.</td> <td colspan="2">Federal Receipts 1002</td> <td></td> </tr> <tr> <td>17.</td> <td colspan="2">G.F. Hatch 1003</td> <td></td> </tr> <tr> <td>18.</td> <td colspan="2">General Funds 1004</td> <td>48667</td> </tr> <tr> <td>19.</td> <td colspan="2">I-A Receipts 1005</td> <td></td> </tr> <tr> <td>20.</td> <td colspan="2">Program Receipts 1028</td> <td></td> </tr> <tr> <td>21.</td> <td colspan="2">Other</td> <td></td> </tr> </tbody> </table>										RECEIPT CODE	FUNDING SOURCE		AMOUNT	16.	Federal Receipts 1002			17.	G.F. Hatch 1003			18.	General Funds 1004		48667	19.	I-A Receipts 1005			20.	Program Receipts 1028			21.	Other		
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FOR B&H USE ONLY																																					
4A KEY NUMBER _____																																					

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION Page 1 of 5

COMPONENT _____

Revised Date _____

13 REQUEST FOR
NEW POSITION

FY 85

1.	POSITION TITLE Utility Engineer IV			RANGE/STEP 21c	BARG. UNIT G	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.	
3.	CONTINUATION LEVEL			ADDITION	JUSTIFICATION				
4.	TYPE OF EXPENDITURE			AMOUNT					
	1	2	3						
	PERSONAL SERVICES								
5.	Salary	46560							
6.	Benefits	8203							
7.	Supplemental Benefits	2550							
8.	Fixed Benefits	2728							
9.	TOTAL PERSONAL SERVICES	01	60041						
10.	Travel	02	2500						
11.	Contractual	03	10000						
12.	Commodities	04	400						
13.	Equipment	05	2025						
14.	Other Office space 125 sq ft (PG1) x 12 mo		3000						
15.	TOTAL COST @\$2.00 sq.ft.		77966						
	RECEIPT CODE	FUNDING SOURCE							
16.		Federal Receipts 1002							
17.		G.F. Match 1003							
18.		General Funds 1004		77966					
19.		I-A Receipts 1005							
20.		Program Receipts 1028							
21.		Other							
FOR B&M USE ONLY									
4A KEY NUMBER _____									

Engineer would be involved in reviewing engineering requirements associated with refinery regulatory activities.

Current engineering staff is not able to absorb any more functions. It is already working at capacity level.

Because regulatory activity concerning refineries, etc. does not exist within this Commission nor any others, it will require much training in order for the Engineer to be able to review engineering requirements associated with these activities.

Office space will be required because existing space is at maximum usage levels already.

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT _____

13 REQUEST FOR
NEW POSITION

FY 85

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Revised Date :

1.	POSITION TITLE Utility Financial Analyst III				RANGE/STEP 21A	BARC. UNIT G	FORM 12 PACE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PET	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.		
3.	CONFIRMATION LEVEL				ADDITION		JUSTIFICATION			
4.	TYPE OF EXPENDITURE			AMOUNT		<p>This position would provide audit of refinery records and all other regulatory activity associated with the scope of SSHB 220.</p> <p>Current financial staff is not able to absorb any more functions and has, in the past, had to absorb a vacancy factor to help alleviate personnel services shortages resulting from budget cutbacks. Even if all positions were filled, workload is such that any additional activities cannot be handled by existing staff.</p> <p>Because regulatory activity concerning refineries, etc. does not exist within this Commission nor any others, it will require much training in order for the Analyst to be able to provide the auditing background necessary for this activity.</p> <p>Office space is not available for additional personnel and all new positions require that the Commission acquire more space.</p>				
	1	2	3							
	PERSONAL SERVICES									
5.	Salary	43560								
6.	Benefits	8203								
7.	Supplemental Benefits	2028								
8.	Fixed Benefits	2728								
9.	TOTAL PERSONAL SERVICES	01	56741							
10.	Travel	02	2500							
11.	Contractual	03	10000							
12.	Commodities	04	400							
13.	Equipment	05	2025							
14.	Other Office space 125sq ft (P01) x 12 mo		3000							
15.	TOTAL COST @2.00 sq ft		74666							
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts 1002								
17.		C.F. Match 1003								
18.		General Funds 1004		74666						
19.		I-A Receipts 1005								
20.		Program Receipts 1028								
21.		Other								
FOR BSA USE ONLY										
4A KEY NUMBER										

13 REQUEST FOR
NEW POSITION

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT _____

FY 85

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Revised Date _____

1.	POSITION TITLE Utility Tariff Analyst II				RANGE/STEP 17A	BARG. UNIT G	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE				AMOUNT					
	1		2		3					
	PERSONAL SERVICES									
5.	Salary		33084							
6.	Benefits		5402							
7.	Supplemental Benefits		2028							
8.	Fixed Benefits		2728							
9.	TOTAL PERSONAL SERVICES		01		43242					
10.	Travel		02		0					
11.	Contractual		03		0					
12.	Commodities		04		400					
13.	Equipment		05		2025					
14.	Other Office space 125sqft (POL) X 12 mo				3000					
15.	TOTAL COST x \$2.00 sq.ft.				48667					
	RECEIPT CODE				FUNDING SOURCE					
16.					Federal Receipts 1002					
17.					G.F. Match 1003					
18.					General Funds 1004					
19.					I-A Receipts 1005					
20.					Program Receipts 1028					
21.					Other					
FOR B&M USE ONLY 4A KEY NUMBER _____										

The addition of another full-time tariff analyst would be required to handle the tariff rate filings which would be a result of this additional regulatory function.

Tariff section is already functioning at capacity and is not able to absorb any further regulatory workload without the addition of another position at this level. In addition, there is no existing office space to house this position.

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT _____

13 REQUEST FOR
NEW POSITION

FY 85

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Revised Date _____

1.	POSITION TITLE ADMINISTRATIVE SUPPORT TECHNICIAN II			RANGE/STEP 8a	BARG. UNIT G	FORM 12 PAGE/LINE	COV.	APPRDV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEC.	
3.	CONTINUATION LEVEL			JUSTIFICATION					
4.	TYPE OF EXPENDITURE			AMOUNT					
	PERSONAL SERVICES								
5.	Salary		18636						
6.	Benefits		3043						
7.	Supplemental Benefits		1142						
8.	Fixed Benefits		2728						
9.	TOTAL PERSONAL SERVICES	01		25549					
10.	Travel	02		0					
11.	Contractual	03		0					
12.	Commodities	04		400					
13.	Equipment	05		1200					
14.	Other Office Space 83 sq.ft (SP6) x 12mo				1992				
15.	TOTAL COST	\$2.00		29141					
16.	RECEIPT CODE	FUNDING SOURCE							
17.		Federal Receipts 1002							
18.		G.F. Match 1003							
19.		General Funds 1004		29141					
20.		I-A Receipts 1005							
21.		Program Receipts 1028							
		Other							
FOR BSM USE ONLY									
4A KEY NUMBER									

The administrative support level is already at over-capacity level and the operating budget for FY 1985 has requested the addition of administrative support personnel to provide adequate coverage for existing regulatory activity. The addition of any new regulatory activity necessitates the need for administrative support for that new activity.

Because of the shortage of usable office space, any new positions require additional office space.

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

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COMPONENT _____

13 REQUEST FOR
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TITLE Alaska Public Utilities Commission Information Processing System	LOCATION Anchorage		PROJECT CLASSIFICATION 02-490-04=01	ELECTION DISTRICT 99	START DATE 9/1/84	COMPLETE DATE 6/30/85		
	PRIO# 1 OF 2							
REQUESTED FUNDING: SITE ACQUISITION PLANNING AND DESIGN CONSTRUCTION AND EQUIPMENT PREVIOUS APPROPRIATIONS (NON-ADD)	GENERAL FUNDS	FEDERAL FUNDS	G.O. BONDS	OTHER	POSITIONS		AGENCY REQUEST	GOVERNOR
					PFT	PI/SEA.	FY 85 TOTAL	
	345.4						345.4	
OPERATING COSTS: FIRST YEAR OPERATING COSTS FULL ANNUAL OPERATING COSTS	33.0 56.1							

PROJECT DESCRIPTION AND JUSTIFICATION:

The Alaska Public Utilities Commission has established several objectives which speak to improved case management techniques and provide for sustained Commission participation in specialized, highly technical regulatory issues such as national telecommunications policy development, local and regional power requirements and continuing as a reliable source of utility related information in response to public and governmental inquiries. In all of these instances, the availability of a properly configured information processing system is essential.

The APUC has an urgent need to expand its information processing system. Following implementation of its initial electronic data processing capability, the APUC uses its existing system in practically every aspect of its operations: for engineering and financial analysis, for job scheduling and control, for drafting letters, orders, testimony and reports, and for numerous administrative controls. At this time, the small processor serving twelve terminals is at capacity or is frequently overloaded which greatly impairs the productivity and quality of work product of the agency's employees.

The agency's background in mechanizing its operations and details of its future plans are contained in the APUC's 1983 computer plan dated October 4, 1983. Copies of this plan have already been sent under separate cover to the Deputy Commissioner of Administration for Information Systems and the Office of Management and Budget (a copy is also attached to this capital budget request). The plan proposes to replace the existing Digital Equipment

AGENCY Alaska Public Utilities Commission

CATEGORY Public Protection

PROGRAM Consumer Protection
Information Processing

PROJECT TITLE System

**CP-1 CAPITAL PROJECT
DESCRIPTION
FY 85**

Page 1 of 2
Revised Date

FY85

RECEIVED

OCT 17 1983

000025

BUDGET REVISION

Project Description and Justification Continued:

Corporation PDP 11/24 minicomputer in FY85 with one having far greater capacity and to expand the number of terminals. This will give most employees, including Commissioners, ready access to numerous data bases giving the status of utility operations and those of the agency itself, to specialized computational facilities for utility regulation, and to electronic drafting of documents. In addition, a large capacity computer is essential for the proper auditing of utilities, most of which maintain their financial and operations records in extensive computer files.

The plan also includes addition of graphics capabilities to the basic system in FY86. This should aid in the presentation of complex utility data to the public. Also in FY86, the Commission plans to begin computer integration of a proposed micrographics system. Filming and computer indexing of its documents onto microfiche will greatly reduce the effort needed to maintain over one million documents in order and ready for reference. In later years funds are requested for new or updated software, for a high volume automatic microfiche-to-paper printer and for automatic microfiche storage and retrieval equipment which will integrate hard copy information with the APUC central data base.

AGENCY Alaska Public Utilities Commission

CATEGORY Public Protection

PROGRAM Consumer Protection
Information Processing

TITLE System

CP-1

ADDITIONAL
EXPLANATION
FORM

41

FY85

Page 2 of 2
Revised Date

000036

TITLE Alaska Public Utilities Commission Information Processing System PRIORITY 1 OF 2

OPERATING	TOTAL PREVIOUS APPROPRIATIONS	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
100 PERSONAL SERVICES							
200 - 800 LINE ITEMS			33.0	56.1	50.0	50.0	50.0
TOTAL			33.0	56.1	50.0	50.0	50.0
1002 FEDERAL RECEIPTS							
1004 GENERAL FUNDS			*33.0	*56.1	*50.0	*50.0	*50.0
OTHER FUNDS							
FULL-TIME POSITIONS							
CAPITAL	TOTAL						
1002 FEDERAL RECEIPTS							
1004 GENERAL FUNDS			345.4	154.8	23.4	91.0	80.0
OTHER FUNDS							
REVENUE							

EXPLAIN PREVIOUS APPROPRIATIONS (GIVE SECTION, CHAPTER, SLA) AND ASSUMPTIONS FOR COST, FUNDING SOURCE, POSITION AND REVENUE ESTIMATES:

Operating funds in FY85 through FY89 include an estimate for hardware and software maintenance agreements along with a projection for professional data processing consulting services necessary to allow program conversions, maintenance and new program development. FY85's estimate is scaled down to reflect the initial acquisition and installation timeframe during which these costs will not be incurred. Estimates for FY87 and beyond are reduced to reflect completion of program conversions and a stabilization of expenses related to system maintenance and ongoing new program development.

*O & M expenses projected through FY89 very closely approximate current funding requirements for data processing support costs and do not represent a net increase in general fund obligation.

CP-2 CAPITAL PROJECT COSTS
 FY 85

AGENCY Alaska Public Utilities Commission
 CATEGORY Public Protection
 PROGRAM Consumer Protection Information Processing System
 PROJECT TITLE _____

Page 1 of 2
 Revised Date 11/4/83

RECEIVED
 NOV 29 1983

000027 BUDGET REVIEW

Appropriation and Assumptions for Cost, Funding Source, Position and Revenue Estimates Continued:

Capital expenditures in FY85 provide for a substantial portion of new hardware and software acquisition and installation. FY86 expenditures include further development of APUC order indexing capabilities and implementation of the integrated micrographics system. These items along with estimates of capital expenditures in FY87 and beyond are explained more completely in the attached APUC 1983 computer plan.

13

AGENCY Alaska Public Utilities Commission

CATEGORY Public Protection

PROGRAM Consumer Protection
Information Processing

TITLE System

Page 2 of 2
Revised Date

FY85

CP-2
ADDITIONAL EXPLANATION FORM
41

00002E

standards for a utility. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)

AS 42.05.151(a)

AS 42.05.711(d)

3 AAC 50.200. INDIVIDUAL ELECTRIC METERS. (a) Except as provided in (b) of this section, an electric utility shall install an individual meter to measure the energy consumption attributable to each residential and commercial unit in a multiple-occupancy building and each mobile home unit in a mobile home park if construction of the building or mobile home park was begun after December 31, 1982.

(b) Individual meters are not required

(1) for transient multiple-occupancy buildings and transient mobile home parks, including, but not limited to, hotels, motels, dormitories, rooming houses, hospitals, nursing homes, and mobile home parks for travel trailers;

(2) for commercial unit space which is subject to alteration with changes in tenants as evidenced by temporary construction or non-load-bearing walls or floors separating the commercial unit spaces;

(3) where alternative renewable energy resources are used in connection with central heating, ventilating, and air conditioning systems; and

(4) in common building areas such as hallways, elevators, reception areas, water pumping facilities, and electric hookups for motor vehicles.

(c) For the purpose of this section, construction begins when the footings are poured. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)

AS 42.05.151(a)

AS 42.05.291(c)

3 AAC 50.300. INFORMATION TO ELECTRIC CONSUMERS. (a) An electric utility shall provide to each new electric consumer, coincident with the application for service, a clear and concise explanation of any rate schedule in its currently effective tariff which applies to that consumer.

(b) Not later than 30 days after the filing of a tariff advice letter in which a change in a rate schedule is requested, an electric utility shall transmit to its affected consumers a clear and concise explanation of the proposed change. This provision does not apply to rate adjustments resulting from an automatic fuel-cost rate adjustment clause.

(c) At least once each year, an electric utility shall transmit to each of its electric consumers an informative summary of any rate schedule in its currently effective tariff which applies to those consumers.

(d) On request of an electric consumer, an electric utility shall transmit a clear and concise statement of the consumer's actual energy consumption and, if billed separately, power consumption for any billing period during the previous 12 months unless the information is not reasonably ascertainable by the utility. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)

AS 42.05.151(a)

AS 42.05.411(a)

3 AAC 50.400. Reserved

3 AAC 50.500. ADVERTISING. (a) In addition to the restrictions imposed under AS 42.05.381(a), neither an electric utility nor a gas utility may recover through rates any direct or indirect expenditure by the utility for promotional, political, or goodwill advertising.

(b) The commission will determine on a case-by-case basis whether the forms of advertising listed in (c)(3) of this section, as well as advertising not readily categorized as promotional, political, or goodwill, and any other form of advertising not covered by this section will be included in utility operating expenses for rate-making purposes.

(c) In this section

(1) "advertising" means the commercial use by a utility of any media, including newspaper, printed matter, radio, and television, in order to transmit a message to a substantial number of members of the public or to the utility's customers;

(2) "goodwill advertising" means advertising directed toward improving or enhancing the public image of a utility or its employees:

(3) "goodwill advertising," "political advertising," and "promotional advertising" do not include

(A) advertising which informs an electric or gas consumer about methods which conserve electric energy or gas or which reduce peak demand for electric energy or gas;

(B) advertising required by law or regulation, including advertising required under Part I, Title II of the National Energy Conservation Policy Act (42 USC § 8201 et seq.);

(C) advertising regarding service interruptions, safety measures, or emergency conditions;

(D) advertising concerning employment opportunities with a utility;

(E) advertising which promotes the use of energy-efficient appliances, equipment, or services;

(F) an explanation or justification of existing or proposed rate schedules or a notice of hearings concerning these rate schedules; and

(G) communications with members of a utility cooperative about the activities or internal affairs of the cooperative or which encourage or promote the participation of the members in the process of governing the cooperative;

(4) "political advertising" means advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to a controversial issue of public importance; and

(5) "promotional advertising" means advertising for the purpose of encouraging a person to select or use the service or additional service of a utility, or the selection or installation of an appliance or equipment designed to use the utility's service, except as provided in (3)(E) of this subsection. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)
AS 42.05.151(a)
AS 42.05.381

3 AAC 50.600. DEFINITIONS. Unless the context indicates otherwise, in 3 AAC 50.100 – 3 AAC 50.600

(1) "building" means a single erected structure, roofed and enclosed within exterior walls, built for permanent use, framed of component structural parts and unified in its entirety both physically and in operation for residential or commercial occupancy;

(2) "commercial unit" means that portion of a building or premises which is normally used for commercial purposes;

(3) "electric consumer" means a person or a public or private entity to which electric energy is sold, other than for purposes of resale, by a regulated public utility;

(4) "gas consumer" means a person or a public or private entity to which natural gas is sold, other than for purposes of resale by a public utility;

(5) "mobile home park" means a parcel of land which is used for the accommodation of occupied mobile homes;

(6) "multiple-occupancy building" means a building which is designed to house more than one residential or commercial unit;

(7) "rate" means

(A) a price, rate, charge, or classification made, demanded, observed, or received with respect to the sale of utility services to a utility consumer;

(B) a rule, regulation, condition, or practice respecting a rate, charge, or classification; and

(C) a contract pertaining to the sale of utility services to a utility consumer;

(8) "rate schedule" means the designation of the rates which an electric utility charges for electric energy; and

(9) "residential unit" means one or more rooms for use by one or more persons as a housekeeping unit which provides living,

January 31, 1984

To: John

From: Ken

RE: SSHB 220, RELATING TO PUBLIC UTILITIES

WHAT THE BILL DOES.

This bill attempts to do several different deeds all in one fell swoop. First the bill calls for restriction on rates charged by public utilities. Such utilities can not include in its charge to customers the cost for political contributions, lobbying, public relations, advertising, and consulting fees. some of this is redundant since it's covered under current statute. Section 2 of this bill also deals with rate setting. It seems to me that in this section, a utility that has part or all of its administrative function outside the state, would be heavily penalized by this bill.

In Section 3 of the bill, one particular item that sticks out is the exemption of cable television firms from regulation by the Alaska Public Utilities Commission. It would be like deregulation. The merits of this section are questionable. The heavyweights in the cable t-v business are obviously against it since it would open areas for more competition. The other side of this issue is philosophical if you ask "should cable t-v be considered a utility?". Perhaps deregulation would not be a bad idea if it were done in a different bill.

The other aim of the bill is to place oil refiners under APUC regulation.

STATE OF ALASKA
FISCAL NOTE

Revision Date 1983

I. REQUEST

Bill/Resolution No.: HB 220
 Title: Restricting cost items..public utility
 Sponsor: Lindauer rates
 Requestor: Labor & Commerce

II. FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.
 Program Category Affected: Protection
 BRU, Program of Subprogram(s) Affected: Public Utilities Commission

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, TC						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Carolyn Guess, Commissioner Phone: 276-6222
 Division: Alaska Public Utilities Commission Date:
 Approved by Commissioner: Richard A. Lyon Date: 4/27/83
 Department: Commerce & Economic Development

Distribution:

Original to Legislative Finance
 Copy to Office of Management and Budget (for Legislature introduced bills)
 Copy to Department (for Governor introduced bills)
 Copy to Sponsor
 Copy to Requestor (if different from Sponsor)

3/8/83

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

ALASKA PUBLIC UTILITIES COMMISSION DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

420 "L" STREET
SUITE 100
ANCHORAGE, ALASKA 99501
(907) 276-6222

April 6, 1983

Representative Walt Furnace, Chairman
House Labor and Commerce
Pouch V
Juneau, Alaska 99811

Dear Representative Furnace:

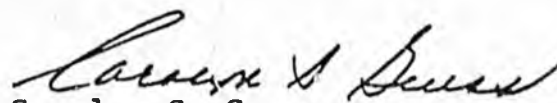
In response to your letter of March 28, 1983, concerning House Bill 220 I am enclosing relevant portions of our existing statute, AS 42.05.381(a) and AS 42.05.511(c) and a portion of our regulations 3 AAC 50.500 which is applicable to electric and gas utilities. The latter is the result of federal legislation which mandated specific consideration of the subject of advertising expenses of electric and gas utilities only.

I found it difficult to articulate in writing the deliberation process that the Commission undertakes when the costs enumerated in items 1 through 7, AS 42.05.381(a), are at issue before the Commission. Therefore you will also find portions of Commission orders in eight proceedings over the past six years where the subjects have been discussed. I have underlined the references to the sections of the statute and regs which are enclosed and believe that the Commission's review and assessment speak for themselves and support our initial position that the proposed legislation is redundant and unnecessary in part, and could result in higher rates to consumers through the foreclosure of the evaluation of the reasonableness of a specific component of a rate.

If there is additional information the Commission can provide, please do not hesitate to contact me at 263-2132.

Sincerely,

ALASKA PUBLIC UTILITIES COMMISSION



Carolyn S. Guess
Chairman

dkd

Enclosures

cc: C. Wallen

TO: Catherine Wallen
Legislative Liaison
Department of Commerce

DATE: March 15, 1983

FILE NO:

TELEPHONE NO:

FROM: Carolyn S. Guess, Chairman *mg*
Alaska Public Utilities Commission

SUBJECT: House Bill 220
Senate Bill 140

Because there apparently are not Bill Analysis Forms available to us in Anchorage I am sending our comments on the proposed legislation in memo form. You may transfer our comments to the appropriate form and sign my name with your initials.

House Bill 220. There is no fiscal impact to the APUC.

Comments: House Bill 220 is redundant in part, unnecessary and could result in higher utility rates.

Section 1(a)(1)-(4) is addressed in 42.05.381(a). The Commission believes the exceptions found in 42.05.381(a)(1)-(4) are reasonable and is not aware of any reason to eliminate them.

Section 1(a)(5), a prohibition of consulting or management fees paid to the owner of a utility could affect a number of small utilities, i.e., Tanana Power Co., and Mukiuk Telephone Co. where the owners are the salaried management of the utility.

In regard to Section 1(a)(6), AS 42.05.511(c) provides:

In a rate proceeding the utility involved has the burden of proving that any written or unwritten contract or arrangement it may have with any of its affiliated interests for the furnishing of any services or for the purchase, sale, lease or exchange of any property is necessary and consistent with the public interest and that the payment made therefor, or consideration given, is reasonably based, in part, upon the submission of satisfactory proof as to the cost of the affiliated interest of furnishing the service or property and, in part, upon the estimated cost the utility would have incurred if it furnished the service or property with its own personnel and capital.
(§ 6 ch 113 SLA 1970)

Therefore, the Commission believes this section of the proposed legislation is redundant and unnecessary.

In regard to Section 1(a)(7), the Commission does not understand what purpose this proposed section would serve and further believes it would create problems and possibly higher rates for utilities such as the Anchorage Municipal electric, telephone, water and sewer utilities which receives services from the Municipality of Anchorage i.e., data processing, legal services, etc.; privately owned utilities such as College Utilities (sewer and water) in Fairbanks. Juneau Douglas Telephone Company and Glacier State Telephone Company serving Kenai, Homer, Kodiak and North Pole could also be adversely affected.

In summary, the Commission does not believe that the public interest would be better served by the enactment of this legislation.

Senate Bill 140.

It would appear if the role of the APUC is limited to an oversight review of the regulations to be promulgated, there is no fiscal impact on the APUC.

Comments: The Commission is supportive of legislation that would result in lower utility rates for Alaskan utility consumers. The Commission observes that this legislation would only benefit consumers of electric utility cooperatives and regional electrical authorities. There are other kinds of utilities that have as much, if not more, need for the availability of low interest loans, specifically telephone, sewer, and water utilities. The Commission would recommend that consideration be given to broadening the kinds of utilities eligible to borrow long or short term monies from the State.

csg/dkd

TO: Catherine Wallen
Legislative Liaison
Department of Commerce

DATE: March 15, 1983

FILE NO:

TELEPHONE NO:

FROM: Carolyn S. Guess, Chairman *CSG*
Alaska Public Utilities Commission

SUBJECT: House Bill 220
Senate Bill 140

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(§ 6 ch 113 SLA 1970)

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March 15, 1983

Page 2 of 2

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csg/dkd

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU ALASKA 99811
407-465-2800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

January 23, 1984

SUBJECT: Sectional Analysis of SS HB 220

TO: House Labor and Commerce Committee

FROM: *LH* Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of SSHB 220, relating to public utilities, including a comparison of the original bill with the sponsor substitute.

In the sponsor substitute:

* Section 1 adds to the list of public utility costs that may not be included as elements of utility rate-setting. The current list of excluded costs is increased to take in all public relations, lobbying, advertising, certain fees paid, and certain products and services purchased from the owner or affiliate of a public utility.

* Section 2 adds two new subsections to AS 42.05.381, regarding utility rate-setting. The new subsection (e) excludes certain cost items related to return on capital from consideration in rate-setting for public utilities that are operated for profit. The new subsection (f) considers revenues and profits from businesses operated in the state that are owned by a utility or its affiliates, in establishing rates for services provided by the utilities.

* Section 3 limits the on-site inspection jurisdiction of the APUC to areas within the state.

* Section 4 amends the definition of "public utility" or "utility" to exclude cable television operators and waste material collection and disposal businesses from the jurisdiction of the APUC, and to include all refiners and distributors of petroleum in the state.

* Section 5 repeals a reference to waste collection and disposal businesses, because such businesses are removed from APCU jurisdiction by *Sec. 4.

* Section 6 sets a July 1, 1984 effective date.

A comparison to SSHB 220 to HB 220 is as follow:

In section 1 of SSHB 220 several changes have been made to the proposed amendment to AS 42.05.381(a). The subsection is the same in both versions through paragraph (4). Paragraph (5) of the sponsor substitute is less restrictive on fees incurred by utilities than is the original bill, and provides a more complex formula for determining those fees that are and are not allowable for purposes of rate setting by the APUC. Paragraph (6) of the substitute makes a technical change to the original bill. Paragraph (7) of the substitute is less restrictive for purposes of rate-setting, on allowable costs of services incurred by a utility.

Sections 2-6 of the sponsor substitute contain new material not found in the original bill.

LHA:ojb
J2/058

Alaska State Legislature

Representative John Lindauer
District 10-A
3933 Geneva Place
Anchorage, AK 99508



While in Juneau
Pouch V
Juneau, AK 99811
465-3709

House of Representatives

March 15, 1983

MEMORANDUM

TO: House Labor and Commerce Committee

FROM: Representative John Lindauer *J.L.*

RE: House Bill #220: "An Act restricting cost items that may be allowed in public utility rates."

House bill #220 insures that the rates charged by a public utility will not be excessive in order to cover unnessesary costs or to provide funds to be siphoned off by out-of-state owners in excess of the legal rate of return. Specifically, consumers of public utility services would not be required to pay for the utilities' political contributions, lobbying efforts, advertising campaigns, public relations, consulting or management fees paid to the owner of the utility, or for excessively priced products and services.

This bill will reduce the utility rates of almost every person, business, and government in Alaska.

Alaska Telephone Association

201 E. 56th Avenue / Suite 320
Anchorage, Alaska 99502
(907) 563-4000

J. Clifton Eller
President

Gordon Parker
Executive Director

January 25, 1984

Hon. John Cowdery, Chairman
House Committee on Labor & Commerce
Pouch V
Juneau, Alaska 99811

ATTN: Ken Johnson

Dear Mr. Cowdery:

At the request of your staff and some members of your committee, I am writing in regards to HB220, "An Act Relating to Public Utilities." ATA opposes this legislation for the reasons outlined in the item by item analysis which follows.

(AS 42.05.381) Section 1. (a) (3) & (4): Current statutes place severe restrictions on advertising and public relations by regulated utilities. The language here is redundant.

(5): If the intent here is to reduce costs and the ultimate effect on the ratepayer, the actual result could be the opposite. At least four companies providing service in Alaska rely heavily on support, management and administrative services through parent companies located Outside. The net effect is that costs are lower due to avoidance of service duplication and lower costs Outside.

Additionally, a number of companies utilize consultants Outside. While we have some very qualified consultants in state, the language here would appear to preclude the companies from calling on the talents of some of the nation's leading talents.

(6) & (7): The apparent purpose of this language is already accomplished in AS42.05.511(c). The statute requires that a company purchasing products or services from an affiliate or subsidiary demonstrate to the APUC that the product or service can't be obtained elsewhere at a lower cost and that the purchase is based on the cost of the item to the affiliate or subsidiary. Current statutes do allow inclusion of a rate of return for the selling entity, a necessity if that entity is to remain in business.

Section 2. (e): The language here appears to exclude debt from the rate of return calculation. Rate of return has always been calculated on the total investment. A company must be allowed to recover interest costs through rate of return in order to finance construction.

(1): This language apparently refers to a double leverage situation in which a stockholder borrows money from the utility to buy more stock. No regulatory body would allow such an arrangement to be included in ratemaking.

Hon. John Cowdery

1/25/84

page 2

(2): This language would appear to penalize a company for establishing affiliates. The federal government is now urging companies to form affiliates to provide new technology (i.e., cable television) and requiring affiliates for some traditional services (i.e., provision of terminal equipment). If this section is enacted, it simply means that an entity which may be the best provider of a service can't provide the service.

(3): This appears to duplicate (2) though specifying unregulated affiliates or subsidiaries. Again, for some services (i.e., terminal equipment) companies are now required by the FCC to establish unregulated subsidiaries, or at the least maintain separate accounts to guarantee no cross subsidy. An investment by a regulated company in a non-regulated subsidiary can not now be included in ratemaking. This is specified by the FCC and in AS42.05.481.

(4): There are clear constitutional questions involved in this requirement favoring Alaska banks. A company has the duty to its stockholders to place its funds in the financial institution offering the best return and treatment.

(5): It is normal business practice for a parent company to pledge its full faith and credit to guarantee loans to a subsidiary. In the case of a regulated company which must pay a loan on which a subsidiary has defaulted, such loss would not be allowed for ratemaking purposes. AS42.05.441 states that, in the case of a parent company operating more than one utility or unregulated subsidiary, a separation of property must be made among the different entities for ratemaking purposes.

(f): Both federal and state law (AS42.05.481) is clear that cross subsidy (i.e., subsidizing a non-regulated subsidiary through regulated rates) is not allowed. This language appears to require a reverse subsidy flowing from an unregulated subsidiary to a regulated parent. We believe there is a constitutional question to this requirement.

The second part of paragraph (f) does not take into account that a subsidiary may be losing money. We suggest that if it is fair to consider the revenues and profits of an unregulated subsidiary for ratemaking purposes, then it should also be fair to consider the costs and losses of the unregulated subsidiary.

I hope this information is helpful to the Committee. I am available to the Committee for questions.

Sincerely,



Gordon Parker

GP/jv

STATE OF ALASKA

ALASKA PUBLIC UTILITIES COMMISSION
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

BIL SHEFFIELD, GOVERNOR

420 "L" STREET
SUITE 100
ANCHORAGE, ALASKA 99501
(907) 276-6222

January 24, 1984

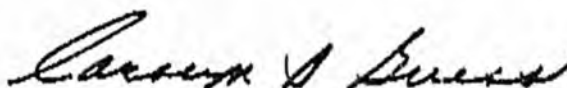
Representative John Cowdery, Chairman
Labor and Commerce Committee
State House of Representatives
Juneau, Alaska 99811

Attention: Ken Johnson

Dear Representative Cowdery:

For the reasons stated in the Commission's memorandum of March 15, 1983, regarding HB 220 and the attached analysis of SSHB 220 by Mark Figura, the Alaska Public Utilities Commission opposes the enactment of SSHB 220 because it is redundant, confiscatory, ambiguous, inconsistent, will require an expenditure of dollars that is unnecessary and legislation that is likely to create a multitude of litigation opportunities. The Commission concludes that based upon its initial and subsequent analysis, the proposed modifications to AS 42.05.381 contemplated in SSHB 220 are not in the public interest.

Sincerely,



Carolyn S. Guess
Chairman

Hearing: January 26, 1984
8:15 a.m.

Enclosure

Carolyn S. Guess, Chairman
Alaska Public Utilities Commission

January 20, 1984

276-3550

Norman C. Gorsuch
Attorney General

SSHB 220

By:

Mark L. Figura
Assistant Attorney General
Commercial Section-Anchorage

You asked me to comment upon sections 2 - 5 of the sponsor substitute for House Bill No. 220 introduced January 10, 1984, and referred to the Labor & Commerce and Finance committees. Section 1 of the bill is similar to last years version, upon which the Commission has already commented.

Section 2 of the bill is ambiguous, and it is difficult to determine the drafter's intent. This will of course pose serious interpretation problems should the bill be passed and will no doubt lead to extensive litigation concerning the meaning of the legislation. My guess is that the drafter intended the following meaning for his proposed AS 42.05.381(e). The Commission is to determine the equity of the utility in the usual way, but reduce the equity figure if the sum of the utility's paid-in capital and retained earnings less the values of the five numbered paragraphs of proposed section 381(e), is less than the utility equity.

Paragraph 1 includes the purchase price of a utility which has changed ownership in the past. (However, paragraph 1 could well mean only the cash used for such a purpose, or what is commonly known as an "acquisition adjustment," the amount of the purchase price in excess of the seller's net book.) Paragraph 2 includes loans made by the utility to affiliated interests. Paragraph 3 includes equity held in (or perhaps the purchase price of) an unregulated company. Paragraph 4 includes deposits in financial institutions located outside the state of Alaska, and paragraph 5 includes assets used to secure loans to affiliated interests.

The obvious legal problem with the entire proposed section 381(e) is that it would result in confiscatory rates whenever it would have any effect. Rates are generally established by the Commission at the minimal level which will enable the utility to attract capital and continue to provide adequate service. To the extent that those rates would be decreased by proposed section 381(e), the decrease would be confiscatory.

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There are also a number of lesser problems with the proposed section. Proposed section 381(e)(1) is apparently aimed at limiting the amounts that a utility may earn on plant purchased from another utility. AS 42.05.441(b) already deals with this problem, in a much more satisfactory way. Proposed section 381(e)(3) penalizes a utility for investing money in an unregulated company. The result of enacting such a provision would be to encourage companies to inflate the plant (and therefore the rate base) of the regulated utility.

Section 2 of the bill would also create a new section 381(f). I interpret proposed section 381(f) as requiring the Commission to decrease the revenue requirement of certain utilities by 15% of their gross in-state nonutility revenues. To the extent that any utility allowed proposed section 381(f) to apply, the application of this section would plainly be confiscatory. In addition, the passage of proposed section 381(f) would provide a strong disincentive to certain utilities and their affiliates to invest within the state of Alaska. Given the option of starting a business (such as a telephone equipment business) in Alaska or some other state, very few companies would choose Alaska if they be subject to a 15% tax on gross revenues on any Alaskan sales.

Section 3 of the bill would add a new section AS 42.05.655 providing that the on-site inspection jurisdiction of the Commission is limited to Alaska. The enactment of proposed section 655 would be inconsistent with AS 42.05.491, which specifically states that under certain circumstances utilities may keep records outside the state, if they agree to pay the actual expenses incurred by Commission personnel in making the out-of-state examination. Proposed section 655 would also allow utilities to avoid Commission oversight of affiliated interest transactions, merely by carrying on those transactions outside the boundaries of Alaska.

Section 4 of the bill proposes three changes in the definitions applicable in AS 42.05. The bill would delete both cable television service and waste disposal service from the services subject to public utility regulation. In addition, the bill proposes to delete the language added by ch. 36 SLA 1971 to AS 42.05.720(4)(e). The 1971 legislation limited the jurisdiction of the Commission over small petroleum fuel dealers. The purpose of the 1971 legislation was set out in the act as follows:

It is the finding of the legislature that it is necessary to avoid unnecessary regulatory procedures over petroleum dealers delivering to

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trailer courts and apartment buildings having local pipe distribution systems for heating fuel, and whose owners or residents have a choice of suppliers.

Apparently the intent of the bill is to reestablish Commission jurisdiction over small petroleum dealers serving trailer courts and apartment buildings. Absent complaints from these consumers, the legislation appears unnecessary.

Section 5 of the bill would repeal AS 42.05.711(i), consistent with the elimination of waste disposal from the definition of public utilities. Since the bill also eliminates cable television service, AS 42.05.711(k) should also be repealed.

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standards for a utility. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)

AS 42.05.151(a)

AS 42.05.711(d)

3 AAC 50.200. INDIVIDUAL ELECTRIC METERS. (a) Except as provided in (b) of this section, an electric utility shall install an individual meter to measure the energy consumption attributable to each residential and commercial unit in a multiple-occupancy building and each mobile home unit in a mobile home park if construction of the building or mobile home park was begun after December 31, 1982.

(b) Individual meters are not required

(1) for transient multiple-occupancy buildings and transient mobile home parks, including, but not limited to, hotels, motels, dormitories, rooming houses, hospitals, nursing homes, and mobile home parks for travel trailers;

(2) for commercial unit space which is subject to alteration with changes in tenants as evidenced by temporary construction or non-load-bearing walls or floors separating the commercial unit spaces;

(3) where alternative renewable energy resources are used in connection with central heating, ventilating, and air conditioning systems; and

(4) in common building areas such as hallways, elevators, reception areas, water pumping facilities, and electric hookups for motor vehicles.

(c) For the purpose of this section, construction begins when the footings are poured. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)

AS 42.05.151(a)

AS 42.05.291(c)

3 AAC 50.300. INFORMATION TO ELECTRIC CONSUMERS. (a) An electric utility shall provide to each new electric consumer, coincident with the application for service, a clear and concise explanation of any rate schedule in its currently effective tariff which applies to that consumer.

(b) Not later than 30 days after the filing of a tariff advice letter in which a change in a rate schedule is requested, an electric utility shall transmit to its affected consumers a clear and concise explanation of the proposed change. This provision does not apply to rate adjustments resulting from an automatic fuel-cost rate adjustment clause.

(c) At least once each year, an electric utility shall transmit to each of its electric consumers an informative summary of any rate schedule in its currently effective tariff which applies to those consumers.

(d) On request of an electric consumer, an electric utility shall transmit a clear and concise statement of the consumer's actual energy consumption and, if billed separately, power consumption for any billing period during the previous 12 months unless the information is not reasonably ascertainable by the utility. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)

AS 42.05.151(a)

AS 42.05.411(a)

3 AAC 50.400. Reserved

3 AAC 50.500. ADVERTISING. (a) In addition to the restrictions imposed under AS 42.05.381(a), neither an electric utility nor a gas utility may recover through rates any direct or indirect expenditure by the utility for promotional, political, or goodwill advertising.

(b) The commission will determine on a case-by-case basis whether the forms of advertising listed in (c)(3) of this section, as well as advertising not readily categorized as promotional, political, or goodwill, and any other form of advertising not covered by this section will be included in utility operating expenses for rate-making purposes.

(c) In this section

(1) "advertising" means the commercial use by a utility of any media, including newspaper, printed matter, radio, and television, in order to transmit a message to a substantial number of members of the public or to the utility's customers;

(2) "goodwill advertising" means advertising directed toward improving or enhancing the public image of a utility or its employees;

(3) "goodwill advertising," "political advertising," and "promotional advertising" do not include

(A) advertising which informs an electric or gas consumer about methods which conserve electric energy or gas or which reduce peak demand for electric energy or gas;

(B) advertising required by law or regulation, including advertising required under Part I, Title II of the National Energy Conservation Policy Act (42 USC § 8201 et seq.);

(C) advertising regarding service interruptions, safety measures, or emergency conditions;

(D) advertising concerning employment opportunities with a utility;

(E) advertising which promotes the use of energy-efficient appliances, equipment, or services;

(F) an explanation or justification of existing or proposed rate schedules or a notice of hearings concerning these rate schedules; and

(G) communications with members of a utility cooperative about the activities or internal affairs of the cooperative or which encourage or promote the participation of the members in the process of governing the cooperative;

(4) "political advertising" means advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to a controversial issue of public importance; and

(5) "promotional advertising" means advertising for the purpose of encouraging a person to select or use the service or additional service of a utility, or the selection or installation of an appliance or equipment designed to use the utility's service, except as provided in (3)(E) of this subsection. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)
AS 42.05.151(a)
AS 42.05.381

3 AAC 50.600. DEFINITIONS. Unless the context indicates otherwise, in 3 AAC 50.100 – 3 AAC 50.600

(1) "building" means a single erected structure, roofed and enclosed within exterior walls, built for permanent use, framed of component structural parts and unified in its entirety both physically and in operation for residential or commercial occupancy;

(2) "commercial unit" means that portion of a building or premises which is normally used for commercial purposes;

(3) "electric consumer" means a person or a public or private entity to which electric energy is sold, other than for purposes of resale, by a regulated public utility;

(4) "gas consumer" means a person or a public or private entity to which natural gas is sold, other than for purposes of resale by a public utility;

(5) "mobile home park" means a parcel of land which is used for the accommodation of occupied mobile homes;

(6) "multiple-occupancy building" means a building which is designed to house more than one residential or commercial unit;

(7) "rate" means

(A) a price, rate, charge, or classification made, demanded, observed, or received with respect to the sale of utility services to a utility consumer;

(B) a rule, regulation, condition, or practice respecting a rate, charge, or classification; and

(C) a contract pertaining to the sale of utility services to a utility consumer;

(8) "rate schedule" means the designation of the rates which an electric utility charges for electric energy; and

(9) "residential unit" means one or more rooms for use by one or more persons as a housekeeping unit which provides living,