

HB 286

HOUSE COMMITTEE REPORT

(11)

Date Referred: May 13, 1991

FURTHER REFERRALS:

Date of Committee Action: 5-15-91

The FINANCE Committee considered:

HB 286

HOUSE BILL NO. 286

LOCAL EXCHANGE TELEPHONE CO. REGULATION

"An Act relating to regulation of local exchange telephone utilities; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 286 (fin) the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) OLEO 5-15-91

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Bob Sharp</i>	✓	<i>Eileen P. Mahan</i>		✓	
<i>Donald J. ...</i>	x	<i>Mike Savane</i>			
<i>Tamara Barnes</i>	x	<i>Mark ...</i>		x	
<i>George ...</i>	x	<i>Kay ...</i>		✓	
		<i>...</i>		✓	
		<i>REC. E. REC. ...</i>		✓	
		<i>...</i>		x	

Mike Savane E.P. Mahan
 CHAIRMAN'S SIGNATURE

CS FOR HOUSE BILL NO. 286 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES IVAN, Jacko, Zawacki

A BILL

FOR AN ACT ENTITLED

1 "An Act requiring the Alaska Public Utilities Commission to adopt regulations concerning
2 the adjustment of rates by local exchange telephone utilities; permitting the adjustment of
3 rates of local exchange telephone utilities in conformance with changes in jurisdictional cost
4 allocation factors; and providing for an effective date."

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

6 * Section 1. AS 42.05.381(e) is amended to read:

7 (e) The commission shall adopt regulations for electric cooperatives and for local
8 exchange telephone utilities setting a range for adjustment of rates by a simplified rate filing
9 procedure. A cooperative or telephone utility may apply for permission to adjust its rates over
10 a period of time under the simplified rate filing procedure regulations. The commission shall
11 grant the application if the cooperative or telephone utility satisfies the requirements of the
12 regulations. The commission may review implementation of the simplified rate filing procedure
13 at reasonable intervals and may revoke permission to use the procedure or require modification
14 of the rates to correct an error. The commission shall adopt the regulations concerning

1 adjustment of rates by local exchange telephone utilities on or before October 1, 1991.

2 * Sec. 2. AS 42.05.381 is amended by adding a new subsection to read:

3 (f) A local exchange telephone utility may adjust its rates in conformance with changes
4 in jurisdictional cost allocation factors required by either the Federal Communications
5 Commission or the Alaska Public Utilities Commission upon a showing to the Alaska Public
6 Utilities Commission of

7 (1) the order requiring the change in allocation factors;

8 (2) the aggregate shift in revenue requirement, segregated by service classes or
9 categories, caused by the change in allocation factors; and

10 (3) the rate adjustment required to conform to the required shift in local revenue
11 requirement.

12 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

No. 1
 Bill Version: CSHB 286 (CRA)
 (H) Publish Date: 5/1/91

STATE OF ALASKA
 1991 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: DCED
 Title: Regulation of Local Exchange ARU: APUC
telephone utilities Component: _____
 Sponsor: Rep. Ivan, Jacko
 Requestor: Rep. Ivan, Jacko COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
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						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

No fiscal impact for FY91

Prepared By: Ray Wibelmann Acting Exec. Director Phone: 276-6222
 Division: Alaska Public Utilities Commission Date: 5/26/91
 Approved by Commissioner: Heim A. Miles Com.
 Agency: Department of Commerce & Economic Development Date: 4-25-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

CS FOR HOUSE BILL NO. 286 ()
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES IVAN, Jacko, Zawacki

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to regulation of rate changes of local exchange telephone utilities; and
2 providing for an effective date."

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

4 * Section 1. AS 42.05.381(e) is amended to read:

5 (e) The commission shall adopt regulations for electric cooperatives and for local
6 exchange telephone utilities setting a range for adjustment of rates by a simplified rate filing
7 procedure. A cooperative or telephone utility may apply for permission to adjust its rates over
8 a period of time under the simplified rate filing procedure regulations. The commission shall
9 grant the application if the cooperative or telephone utility satisfies the requirements of the
10 regulations. The commission may review implementation of the simplified rate filing procedure
11 at reasonable intervals and may revoke permission to use the procedure or require modification
12 of the rates to correct an error. The commission shall adopt the regulations concerning
13 adjustment of rates by local exchange telephone utilities on or before October 1, 1991.

14 * Sec. 2. AS 42.05.381 is amended by adding a new subsection to read:

- 1 (f) A local exchange telephone utility may adjust its rates in conformance with changes
2 in jurisdictional cost allocation factors required by either the Federal Communications
3 Commission or the Alaska Public Utilities Commission upon a showing [of] to the ^{Alaska} ~~Commission~~
4 (1) the order requiring the change in allocation factors;
5 (2) the aggregate shift in revenue requirement, segregated by service classes or
6 categories, caused by the change in allocation factors; and
7 (3) the rate adjustment required to conform to the required shift in local revenue
8 requirement.
9 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature
House of Representatives

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Representative Juan M. Juan

SECTIONAL ANALYSIS FOR CSHB 286 DRAFT (7-LS1207/V)

SECTION 1: Requires the Alaska Public Utilities Commission to adopt regulations concerning adjustment of rates by local telephone utilities on or before October 1, 1991.

SECTION 2: This section allows telephone utilities to adjust rates in compliance with regulatory orders issued by the Federal Communications Commission or the APUC. Under current procedures, whenever a shift in cost allocation among the interstate toll, intrastate toll and local jurisdictions, companies must go through rate case procedures just to comply with required adjustments. The provision in section one allows the shifts to take place without the expense or burden of a rate case procedure.

SECTION 3: Immediate effective date.

DISTRICT 25

AKIACHAK, AKIAK, ATMAUTLUAK, BETHEL, CHEFORNAK, EEK, GOODNEWS BAY, KASIGLUK, KIPNUK, KONGIGANAK, KWETHLUK, KWILLINGOK, MEKOYAK, NAPAIAK, NAPASKIAK, NEWTOK, NIGHTMUTE, NUNAPITCHUK, OSCARVILLE, PLATINUM, QUINHAGAK, TOOKSOOK BAY, TUNTUTULIAK, TUNUNAK

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

ALASKA PUBLIC UTILITIES COMMISSION DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

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ALASKA PUBLIC UTILITIES COMMISSION

COMMENTS ON CSHB 286

MAY 7, 1991

The Commission unequivocally supports simplified rate making that will reduce rate case costs while still protecting consumers.

The Commission opposes CSHB 286 because it does not meet these objectives, and it is premature.

-CSHB 286 lets all telephone companies in the state, even the largest monopolies, raise rates by up to 8 percent or more a year.¹ These increases are allowed whether needed or not and even if the company is already overearning.

-The Commission would have no direct control over these increases. This deprives consumers of vital protection now provided by Commission review of rate increases. And it puts the burden on the consumers to control the increases. No other regulated utilities in the state can raise the rates to their consumers without regulatory review.

-Rate filings for local telephone companies will be simplified and rate case costs will be reduced under legislation passed last session (HB 168) without compromising consumer protection. Until these regulations are in place and tested, it is premature and confusing to require a further level of simplified ratemaking.

-RECOMMENDATION: Allow the Commission to complete the work already underway to implement HB 168. If the legislature wants to impose a time certain or other conditions on the HB 168 process, it can do so. (See proposed legislation in this packet.)

Other States have required simplified procedures for local telephone companies, but they have left the details to their public utility commissions. This allows for all sides to be heard, including both industry AND consumers, and for the full range of alternatives to be considered in an open forum.

¹Combining Section 1 and Section 2 increases could result in annual rate increases much higher than 8 percent a year.

CS for CSHB 286 (L&C)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE-FIRST SESSION

A BILL
FOR AN ACT ENTITLED

"An Act relating to regulation of local exchange telephone utilities; and providing for an effective date."

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

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

(e) The commission shall adopt regulations for electric cooperatives and for local exchange telephone utilities setting a range for adjustment of rates by a simplified rate filing procedure. In developing the simplified rate filing procedure for local exchange telephone utilities the commission shall consider the size of the utility and the impact of rate case expenses on rates. A cooperative or telephone utility may apply for permission to adjust its rates over a period of time under the simplified rate filing procedure regulations. The commission shall grant the application if the cooperative or telephone utility satisfies the requirements of the regulations. The commission may review implementation of the simplified rate filing procedure at reasonable intervals and may revoke permission to use the procedure or require modification of the rates to correct an error.

* Sec. 2. AS 42.05.381 is amended by adding a new subsection to read:

(f) By January 1, 1992, the commission shall adopt regulations to establish simplified rate filing procedures for local exchange telephone companies as required by AS 41.05.381(e).

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA

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ALASKA PUBLIC UTILITIES COMMISSION

COMMENTS ON HB 286

April 29, 1991

The Commission recognizes the benefits of simplified ratemaking but opposes HB 286 because it fails to adequately protect the consumers of local telephone companies and because it is premature.

Local telephone companies are part of a statewide telephone network that provides both local and long distance service. Local telephone companies are more complex than other utilities because they have costs and revenues which must be separated into three categories: local, intrastate toll, and interstate toll. With the introduction of intrastate long distance competition, the local telephone companies are making annual filings to the Commission which include this cost and revenue data. These filings are currently used for determining what charges intrastate long distance companies will pay to access customers through the local telephone companies. However, they also include information which will allow the ratemaking process for local services to be simplified and expedited without compromising protection of the consuming public. This is the Commission's current mandate under legislation passed last year (HB 168). Therefore, it would be premature to consider deregulation of local telephone utilities before taking the intermediate step of stream-

lining regulation. To do so would be to put the public at risk without demonstrable benefits which can otherwise be achieved under simplified ratemaking procedures.

In particular, the Commission finds Section 3 of the bill to be contrary to the public interest. Under this section, local telephone utilities would be entitled to rate increases of 8% per year regardless of what rate of return they are earning or whether costs are increasing. This proposal is radically different in scope and structure from the current rules governing simplified ratemaking for electric cooperatives. The proposal in Section 3 essentially is devoid of the public protection checks which balance the quasi-automatic rate adjustments allowed for electric cooperatives, including limits on increases based on allowed earnings, votes by their elected boards prior to requesting rate adjustments, quarterly or semi-annual filings, required rate decreases, etc. In addition, by any standard, this section is exceedingly liberal (with ratepayer money) relative to the approaches which have been adopted in other jurisdictions for allowing rate flexibility for telephone utilities.

Section 2 of the bill appears to be an automatic adjustment clause for changes in the rules governing separation of costs between the local, intrastate toll, and interstate toll jurisdictions. Unlike fuel costs, these changes do not occur overnight or without warning; rather, they are considered in lengthy federal or state proceedings with the resultant changes

occurring at some future time or in phases. With the annual access charge filings required by intrastate long distance competition, there is no need for an automatic adjustment provision. These cost changes can readily be included in rates each year through existing procedures.

Section 5 of the bill would economically deregulate 9 of the 18 local telephone companies fully regulated by the Commission based on the number of access lines they serve. The local telephone companies deregulated by this section are monopolies. Without regulation, there is no protection in place for consumers against the monopoly provision of essential communications service. This is particularly critical in the areas served by the small utilities deregulated by this bill. If the cost of regulation is too high, then the answer is to simplify regulatory procedures, not to fully deregulate the utilities. In addition, there are already provisions in the statute allowing the consumers of many of these utilities to vote to be deregulated if they believe it is desirable to do so.

In conclusion, the Commission finds that HB 286 poses risks to the public interest. In addition, the Commission believes that its existing legislative mandate and recent developments in related telecommunications matters, notably intrastate long distance competition, have set the stage for simplification of local telephone company ratemaking. This course should be maintained and completed before further deregulation is considered.

ALASKA TELEPHONE ASSOCIATION

POSITION PAPER ON HB 286

"An Act Relating To Regulation Of Local Exchange Telephone Utilities"

Since the late 1970s, policymakers throughout the nation have been moving toward streamlined regulation and deregulation of local exchange telephone utilities. Varied versions of simplified ratemaking and deregulation have been implemented in different jurisdictions. In all cases, however, two commonalities exist: motivation and results.

A prime motivating factor in this trend has been cost. The cost of regulation has risen to the point which makes it a significant contributor to rate levels. States have found that establishing a simplified procedure and deregulating certain classes of companies reduces the cost of service, thereby reducing pressure on the pocketbooks of customers.

These states have also found that simplified ratemaking and deregulation omits the necessity of committing regulatory resources to the minor cases, freeing them to concentrate on the more complex procedures and policy issues before them.

Timeliness is another factor leading more and more states to restructure their regulatory procedures. The current system of regulation in Alaska, for instance, is modeled on that created by the federal government in 1934. It is a cumbersome, time-consuming process which ill fits an industry attempting to combine customer needs with the technology of the 1990s.

The most significant result is the level of customer satisfaction. Simply put, the experience has been that customers are comfortable with simplified ratemaking and deregulation.

Attached is a copy of the latest study of state action on simplified ratemaking and deregulation. The study was compiled by the National Regulatory Research Institute, the research arm of the National Association of Regulatory Utility Commisisoners.

The Alaska Telephone Association (ATA), a trade association representing the 22 local exchange telephone utilities authorized to provide service within the State of Alaska, has been concerned about the cost and timeliness of regulation for

many years. Our first discussion with Alaska Public Utilities Commission regarding methods of reducing the cost and increasing the efficiency of regulation occurred in 1984.

In 1990, at ATA's urging, the legislature passed overwhelmingly HB 168, calling on the APUC to implement a simplified rate filing procedure for local exchange telephone utilities. ATA had originally proposed language which described such a procedure in detail. However, at the request of the APUC, we agreed to a more general bill which left the details up to the APUC.

Almost a year later, HB 168 has not been implemented. No docket has been opened by the APUC. The only action taken thus far by the APUC was the summary rejection of proposed regulations filed by ATA in an effort to initiate the implementation of the legislation. Consequently, the legislature has before it HB 286.

SECTIONAL ANALYSIS OF HB 286

Section 1: This section allows the automatic applications of shifts in jurisdictional allocations resulting from regulatory decisions. Under current practice, if either the Federal Communications Commission or the APUC issues a decision requiring that costs previously allocated to either the interstate toll, intrastate toll or local jurisdictions be allocated to another jurisdiction, the company is required to file for subsequent commission approval to carry out the order.

This language would simply allow the company to accomplish the required shift without submitting to an additional complicated regulatory procedure.

Section 2: This language implements HB 168, passed by the legislature in 1990. It allows a local exchange telephone utility to adjust rates, up or down, by a maximum of eight per cent by notifying affected customers and the commission. The commission may investigate the adjustment upon receipt of requests by five per cent of the utility's customers. This concept is similar to that already in place for the electric industry.

As with any industry, costs of doing business for local exchange telephone utilities go up. This procedure will allow the utilities to accomplish modest adjustments and avoid the shock of large increases.

Section 3: The effective date of the legislation is immediate.