

SB

47

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 1, 1995

FURTHER REFERRALS:

Date of Committee Action: 3/6/95

The FINANCE Committee considered:

SB 47(efd fld)

SENATE BILL NO. 47(efd fld)

APUC EXTENSION AND REGULATORY COST CHARGE

"An Act relating to the extent to which the Alaska Public Utilities Commission may exercise its powers when regulating utilities; establishing a regulatory cost charge on public utilities and pipeline carriers; relating to the allocation of costs in hearings before the Alaska Public Utilities Commission; relating to the method by which utilities are exempted from and made subject to regulation by the Alaska Public Utilities Commission; relating to the monetary threshold for regulation of certain kinds of utilities by the Alaska Public Utilities Commission; extending the Alaska Public Utilities Commission; relating to staggered terms for members of the Alaska Public Utilities Commission."

recommends it be replaced

[] the same title

with the following committee substitute _____

[] a new title

[] additional referral to _____ Committee

[] attached amendment(s)

ADOPTS: _____ Letter of Intent

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

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal note(s) HFC for DCED [] fiscal note(s) _____

[] zero fiscal note(s) _____ zero fiscal note(s) 1 DOA 2/3/95

1 Rev 2/1/95

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Mark Pinsky</i>	X			
<i>John Lusk</i>	X			
<i>Terri Martin</i>			X	
<i>Pat Hall</i>	X			
<i>Sam Taylor</i>	X			
<i>Ben Stinson</i>			X	
<i>Gene Theriault</i>	X			
<i>Mike Yavone</i>				X
<i>Tay Brown</i>				X
<i>Richard Joseph</i>	X			
<i>Richard Joseph</i>	X			

CHAIR'S SIGNATURE

Mark Pinsky *Richard Joseph*

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. SB 47 (efd fld)

Revision Date: _____
 Title: Establishing a regulatory cost charge
extending the APUC
 Sponsor: Senator Kelly
 Requestor: _____

Dept. Affected Commerce & Economic Dev.
 BRU: APUC
 Components: _____
 Serial # 364

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
Personal Services	2616.9	2616.9	2616.9	2616.9	2616.9	2616.9
Travel	53.6	53.6	53.6	53.6	53.6	53.6
Contractual	1008.5	1008.5	1008.5	1008.5	1008.5	1008.5
Supplies	60.7	60.7	60.7	60.7	60.7	60.7
Equipment	50.0	50.0	50.0	50.0	50.0	50.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	3789.7	3789.7	3789.7	3789.7	3789.7	3789.7

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
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FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
GF Program Reciepts	3789.7	3789.7	3789.7	3789.7	3789.7	3789.7
Federal Fund	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	3789.7	3789.7	3789.7	3789.7	3789.7	3789.7

POSITIONS :

Full-Time	42	42	42	42	42	42
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

see attached analysis

Prepared by:

House Finance Committee

Rep. Mark Hanley, Co-Chair

Rep. Richard Foster, Co-Chair

Date: 3/6/95

Phone: 465-4939

Phone: 465-3789

SB 47 (L&C)
APUC Extension & Regulatory Cost Charge
February 1, 1995
Page 2 of 2

Bill Analysis (Analysis for sections impacting the Department of Revenue only)

Section 1, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14, 15 and 16 - No impact.

Sections 2 and 10 reinstitute the regulatory cost charges (RCC) and sets the maximum rate paid by regulated public utilities and pipeline carriers to the APUC at .8% of gross revenues, as adjusted, from operations in the state. The language of the bill is very similar to statutory provisions that were previously in effect but "sunsetted" December 31, 1994. Paragraph (e) appoints APUC to administer the RCC, Department of Revenue to collect the charge and Department of Administration to identify the amount of the APUC operating budget that lapses each year. The legislature may appropriate an amount equal to the lapse to APUC to reduce future RCC charges. Paragraph (g) authorizes APUC and Department of Revenue to adopt regulations to administer this section.

Operating Costs

Department of Revenue is currently charged with collecting and accounting for RCCs. The RCCs were paid quarterly in FY94 and annually in FY95 by approximately 100 public utilities and pipeline carriers. The Department does not envision that the reinstatement of RCCs will have an impact on its operating budget.

Revenue

According to APUC officials revenue derived from this statute will be approximately the same as was collected in FY95. This revenue is used to fund the APUC operating budget and will not generate additional new revenues to the state.

FISCAL NOTE

No. 2

STATE OF ALASKA
1995 LEGISLATIVE SESSION

Bill Version: SB47

(S) Publish Date: 2/3/95

Revision Date: _____

Department Affected: Administration

Title: "An Act relating to the extent to which the Alaska Public Utilities Commission ... effective date."

BRU: Finance

Sponsor: Senator Kelly

Component: Finance

Requestor: _____

COMPONENT SERIAL NO. 59

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
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FUNDING SOURCE: (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
OTHER	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 95) cost: \$ 0.0

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

ANALYSIS: (Attach a separate page if necessary.)
No impact on the Division of Finance.

Prepared by: Don Wanie *DW*
Division: Finance

Phone: 465-2240
Date: _____

Approved by Commissioner: Mark Bover *MB*
Agency: Department of Administration

Date: 1/30/95

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FISCAL NOTE

No. 3
Bill Version: SB 47
(S) Publish Date: 2-23-95

Revision Date: February 1, 1995 Dept. Affected: Revenue
Title: APUC Extension & Regulatory Cost Charge BRU: Audit Operations
Component: Income and Excise Audit
Sponsor: Senator Kelly
Requestor: Labor & Commerce COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE FUND SOURCE:						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

SB 47

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 50.00

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320
Division: Income and Excise Audit Date: 2/1/95
Approved by Commissioner: *[Signature]* Date: 2/1/95
Agency: Department of Revenue

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

No. 1
Bill Version: SB 47
(S) Publish Date: 2/3/95

Revision Date: _____
Title: An Act . . . establishing a regulatory cost charge
extending the Alaska Public Utilities Commission
Sponsor: Senator Kelly
Requestor: _____

Department Affected: Commerce and Economic Development
BPU: Alaska Public Utilities Commission
Component: _____
COMPONENT SERIAL NO. 364

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	2,616.9	2,770.3	2,947.0	3,135.1	3,335.0	3,547.8
TRAVEL	53.6	56.7	60.4	64.2	68.3	72.7
CONTRACTUAL	1,008.5	1,067.6	1,125.7	1,209.2	1,285.3	1,367.2
SUPPLIES	60.7	64.3	68.4	72.7	77.4	82.3
EQUIPMENT	50.0	52.9	56.3	59.9	63.7	67.8
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	3,789.7	4,011.8	4,267.7	4,540.0	4,829.7	5,137.8

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	3,789.7	4,011.8	4,267.7	4,540.0	4,829.7	5,137.8
1006 GF/MHTIA						
Other						
TOTAL	3,789.7¹	4,011.8¹	4,267.7¹	4,540.0¹	4,829.7¹	5,137.8¹

Estimate of current year (FY 95) cost: \$ _____

POSITIONS

FULL-TIME	42	43	43	44	45	46
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

¹Represents revenues from the regulatory cost charge mandated by Sections 1 and 3 of HB 99.

This bill extends the life of the APUC until June 30, 1999, and mandates the collection of fees from regulated utilities and pipeline carriers to cover its full authorized budget. Early passage is essential to keep public utilities and pipeline regulation on track. Otherwise, the APUC will shut down June 30, 1995. This reflects the operating budget request for the Commission in FY 96. In addition, the contractual line includes \$60.7 for increased RSA with the Department of Law to handle legal analysis and increased litigation concerning the new powers and duties language in Section 1 of the bill.

Prepared by: Robert A. Lohr, Executive Director
Division: Alaska Public Utilities Commission
Approved by Commissioner: William L. Hensley
Agency: Commerce and Economic Development

Phone: 276-6222
Date: 1/27/95
Date: 1/27/95

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Audit Report



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ORGANIZATION AND FUNCTION

Public utility regulation in Alaska has evolved substantially since the creation of the Public Services Commission (PSC) in 1959. That three-member body had jurisdiction over electric power, heat, water, gas, oil or other petroleum products (except by pipeline), telephone or telegraph communications, and community sewer services. In 1960 PSC gained responsibility for transportation utilities which it regulated until the creation of the Alaska Transportation Commission in 1966.

PSC was replaced by a three-member Alaska Public Utilities Commission in 1970. Regulated industries then included electric, telecommunication, water, steam, sewer, gas, and petroleum when no competition existed. A 1973 amendment added garbage, refuse, trash, or other waste to the list. Amendments passed in 1980 provided exemptions from economic regulation for cable television services and other utilities with low annual gross revenues as well as establishing a provision allowing economic deregulation by consumer vote for certain utility groups. With abolition of the Alaska Pipeline Commission in 1981, jurisdiction over pipelines passed to APUC.

In addition to jurisdictional changes, composition of APUC also changed. Alaska Statute 42.05.040 originally required one member to be a law school graduate, one to be a university graduate with a major in engineering, and one to be a university graduate with a major in finance, accounting, or business administration. Two additional positions were added to the commission in 1975 for which no special qualifications were established. All members are appointed by the governor and confirmed by the legislature in joint session for six-year terms.

Under AS 42.05 and AS 42.06, APUC is charged with the responsibility to ensure the furnishing of adequate service to all public utility patrons, without discrimination, and at the lowest reasonable rates consistent with the interests of both the public and the utility. Statutory provisions direct the commission, after determining an applicant is fit, willing, and able to provide utility service, to issue that applicant a Certificate of Public Convenience and Necessity. After issuance of this certificate, the commission then regulates the rates, classifications, rules, regulations, practices, services, and facilities of a public utility, unless it is exempted or deregulated. The commission has the authority to adopt regulations and to hold formal, quasi-judicial hearings, to accomplish these purposes.

The staff of APUC is divided into six major functions: administration, engineering, communication carriers, consumer protection, finance, and tariffs. In total, APUC employs

Alaska Public Utilities Commission Members

Don Schröer, Chairman
Consumer Seat
Term expires October 31, 1996

Susan M. Knowlton
Consumer Seat
Term expires October 31, 1993

Daniel Patrick O'Leary
Legal Seat
Term expires October 31, 1994

Mark A. Foster
Engineering Seat
Term expires October 31, 1993

James E. Carter
Finance Seat
Term expires October 31, 1998

40 people with an operating budget for FY 93 of \$3,740,800. A brief description of the services provided by these functions follows:

Administration. An executive director, hired by the commission, is responsible for directing all staff functions and acts as a liaison between staff and commissioners and between the commission and legislature. He/she is responsible for records and document management, fiscal and personnel administration, and budget preparation and is assisted in these duties by an administrative assistant, document processing personnel, and other clerical support staff.

Engineering. This section is responsible for the investigation of utility procedures and practices affecting quality of service, review of legal descriptions for service areas, plans for plant expansion, and plant-in-service and depreciation schedules. Their evaluations are presented in proceedings before the commission.

Communication Carriers. This section was established by 1976 legislation to develop, recommend, and administer policies and programs with respect to the regulation of rates, services, accounting, and facilities of communication carriers within the State involving the use of wire, cables, radio and space satellites.

Consumer Protection and Information. Major responsibilities for this section include investigation and resolution of consumer complaints, public relations, and information dissemination.

Finance. Activities carried out by this section include the examination, analysis, and evaluation of financial statements submitted for rate cases, audits of financial records of utilities, examination of financial information comprising historical operating year and pro forma adjustments, and the presentation of these analyses at proceedings before the commission.

Tariff. This section examines, analyzes, and investigates tariff filings and presents recommendations to the commission at biweekly tariff action meetings. Administrative functions include organizing those meetings, as well as meeting all public notice requirements on tariff filings and maintenance of current master tariffs for all utilities.

REPORT CONCLUSIONS

Policy Issues

This review contains policy issues raised as a result of our evaluation of various commission practices. The final policy decisions affecting those practices require legislative consideration. In debating these decisions the legislative oversight committees should take into consideration the findings and recommendations presented in this report to assist them in evaluating the potential impact of any policy changes.

Report Conclusions

In our opinion, the Alaska Public Utilities Commission is operating in an efficient and effective manner and should continue to regulate public utilities and pipelines. We believe that the public interest is being served by requiring public utilities and pipelines to be certificated by APUC. This process stabilizes demand for the utility service by eliminating competition and thereby allowing economies of scale to operate. Economic regulation by the commission, in place of that competition, ensures that the utilities provide adequate service at the lowest reasonable rates.

We recommend that AS 44.66.010(a)(4) be amended to extend the life of APUC to June 30, 2003. APUC has consistently demonstrated public need; we believe it is in the public's best interest to extend the life of this commission for ten years. However, we recognize that performance issues periodically arise. The Division of Legislative Audit can address these interim issues, if any, through a special audit at the request of the Legislative Budget and Audit Committee.

FINDINGS AND RECOMMENDATIONS

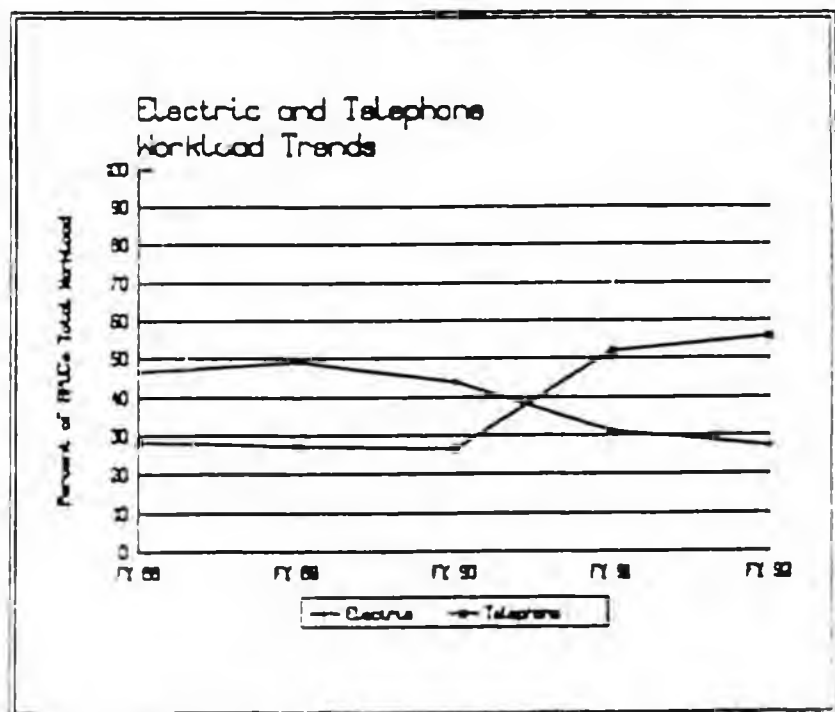
Recommendation No. 1

Alaska Statute 42.05.153 should be amended to require APUC to periodically adjust the regulatory cost charge (RCC) on an industry by industry basis. Further, the automatic repeal date of this statute should be deleted.

In our 1989 sunset audit report we recommended a program receipts budget for APUC, not because it was an alternative funding source but because of the potential benefits that this mechanism could provide. A user fee design can establish a basic fairness in that only those who benefit from the regulatory process bear its cost; it can also encourage consumers to recognize and eliminate unwarranted regulation through deregulation elections. However, these benefits will only be realized to the extent that the RCC program reasonably links the cost-causers with the cost-payers.

For FY 93, the legislature authorized a new RCC program which passes APUC's costs on to the consumers of regulated utilities. This program allocates costs based upon gross revenues. A single charge factor is used across-the-board for all utilities and all industries. Although we believe that a direct workload-based allocation program is preferable, as outlined in our 1989 report, we also continue to believe that a gross revenue based system could realize these benefits if the rates reflect the workload. However, the single RCC factor used in the current plan sacrifices some of program's potential benefit, in that the cost-payers are not necessarily the cost-causers.

We analyzed APUC's workload to evaluate the alignment of cost-causer to cost-payer. In the absence of verifiable data such as utility or industry codings on payroll time sheets, we were forced to approximate the workload by using rough estimates, which were provided on an unofficial basis by commission staff. They provided estimates of the average relative effort required to perform the ongoing APUC functions such as tariff filings, formal proceedings, certification proceedings, and formal and informal complaints. While we acknowledge that the weighting in these analyses is imperfect, we believe it provides an adequate indication of the



commission's workload. We found that the electric and telephone industries, on a combined basis, have represented approximately 79 percent of APUC's workload. The graph of these two industries illustrates the significance, variation, and trend that complicates setting of an RCC rate. The following table compares the commission's estimated FY 93 RCC receipts with the amount calculated based upon the workload over the past three years.

Industry	Flat Rate Allocation		Workload Allocation		Over (Under) Allocation
	Estimated Gross Revenues	RCC Percent	Estimated FY 93 RCC	Percent of Workload	
Electric	\$260,673,485	.577%	\$1,504,086	34%	\$1,311,670
Telephone	153,306,332	.577%	884,577	45%	1,736,033
Pipeline	99,532,100	.577%	574,300	4%	154,314
Gas	99,152,056	.577%	572,107	3%	115,736
Water	22,955,320	.577%	132,452	4%	154,314
Sewer	17,129,576	.577%	98,838	2%	77,157
Refuse	15,856,758	.577%	91,493	4%	154,314
Cable	0	.577%	0	3%	115,736
Other	0	.577%	0	1%	38,579
Total	\$668,605,627		\$3,857,853	100%	\$3,857,853

This table demonstrates that, based upon the workload over the past three years, the flat across-the-board rate significantly undercharges telephone and overcharges electric, pipeline, and gas utilities. Of course, the over or under allocation amount by industry varies depending on how many years of workload are considered. The use of an across-the-board rate incorrectly assumes that an industry's gross revenues are closely correlated to the workload that it creates. Given the significance of the electric and telephone workload, variation, and trend, we do not believe that the allocation methodology should assume that all workload cycles reverse themselves and that all industries create the same amount of workload in the long run. Therefore, we recommend that the legislature amend AS 42.05.253 to require APUC to periodically adjust the RCC factors to reflect workload on an industry by industry basis.

Notwithstanding the above, we support the current RCC program; we believe that it provides a measure of equity and responsiveness to unwarranted regulation that was lacking prior to the program. Our recommendation is intended to further the equity and regulatory responsiveness objective of this program.

The RCC program was established as a trial program utilizing an automatic repeal on December 31, 1994. As we consider this program to be effective, we recommend that this repeal provision be deleted.

Recommendation No. 2

Alaska Statute 42.05.711 should be amended to make it easier for utility consumers to opt in or opt out of economic regulation.

In the 1989 sunset audit report, we recommended the deregulation of several industries as well as the smaller utilities in each industry. We continue to believe that not all industries need to be regulated and that the cost of regulation may exceed its benefits, particularly for the smaller utilities. With the recent adoption of a user fee approach under the RCC program, the impetus exists to make state government more responsive; what is lacking is a reasonable mechanism to allow consumers to select whether or not they want their utility to be regulated.

Alaska Statute 42.05.711 exempts electric and telephone utilities with revenues less than \$50,000 and refuse utilities with revenues under \$200,000. However, customers can obtain economic regulation by petitioning APUC. Alaska Statute 42.05.711 presently requires 25% of an exempted utility's subscribers to sign the petition. We believe that this is too great an obstacle to overcome and recommend that an election be called if APUC receives a petition demonstrating significant consumer interest. [We recommend that the petition and election requirements be modeled after the deregulation election procedures in AS 42.05.712. These procedures call for an election if the petition is signed by 10% of the first 5,000 subscribers and 3% of the subscribers in excess of 5,000. These elections may only be held once every two years for a given utility.]

Alaska Statute 42.05.711 also allows deregulation elections to be held for electric and telephone utilities with revenues of less than \$325,000 and other utilities with revenues under \$100,000. We believe that more consumers should be given the option to deregulate by substantially raising the cut-off amount.

In combination, these two changes would allow APUC and the user fee approach of the new RCC program to be more responsive to the regulatory needs of the utility consumer. The regulatory cost/benefit decision should be made by the consumer.

Recommendation No. 3

APUC should establish a timekeeping system.

We initially recommended, in 1979, that the commission implement the time system they had purchased. As part of a 1978 management audit of APUC, Arthur Young & Co. developed a time management system to assist the commission in prioritizing, planning, scheduling,

monitoring the workflow. In response to our recommendation, the commission concurred that a time management system is a useful administrative tool. They indicated that the time system would be implemented.

In our 1979 budget audit report we recommended that APUC establish a timekeeping system as an integral part of a direct-allocation RCC program. As the legislature selected an RCC program that was not time based, APUC was not required to implement this recommendation. However, as costs to establish and operate a time system are minimal and the benefits are substantial, we continue to recommend it.

The costs of a timekeeping system are minimal.

- The commission should determine what management reports are needed. While we acknowledge that the 1978 time management system is likely outdated, we recommend that the commission review it to assist them in developing this needs definition.
- Purchase and install "canned" software. There is very inexpensive software on the market that should meet the commission's needs. APUC already has a programmer on staff that could handle the installation.
- The ongoing cost to record time would be insignificant. An employee would need only a few minutes a day to electronically enter their time.
- The time system would also require a small amount of computer and personnel time to accumulate the data and generate periodic management reports.

The benefits of a timekeeping system are substantial.

- A time system would give APUC management a greater ability to prioritize, plan, schedule, and monitor their workload. We believe this information would be invaluable to the commission.
- The legislature is often involved in regulatory matters. Using these management reports, APUC would be better able to estimate the full effect of any regulatory changes.
- There is a potential for increased staff efficiency as a result of time sheet accountability.
- Time sheets would provide a defensible basis for the RCC allocation discussed in Recommendation No. 1. However, regardless of the action taken on Recommendation No. 1, the benefits of implementing a timekeeping system far outweigh the costs.

The nature of the commission's business is very different from most state agencies; they deal with a relatively small number of companies and work on discrete projects. APUC's workload is similar to that in the Attorney General's Office and the Department of Transportation and Public Facilities' maintenance and construction divisions, all of which maintain project time systems.

Recommendation No. 4

APUC should consider how to best ensure commission member access to adequate staff support and advice.

The commission members are inundated with technical information and complex issues. These issues must be thoroughly explored and the commission's decisions must be fully documented. The legislature recognized this difficult task and appropriately established full-time commission members with six-year terms. Nevertheless, there remains a substantial need for staff support and professional advice.

We are concerned that in the instances when commission staff are named as a party in an adjudicatory proceeding, the commission members do not have full access to support staff, professional staff, or legal counsel. The judicial model requires adversarial parties to present the case. APUC staff is frequently designated as a party to a case to provide this necessary balance. The assistant attorney generals advise APUC staff and effectively become a party to the case. Under this judicial model, ex parte communication rules prevent the commission members from directly obtaining assistance or advice from their staff or attorneys; this can only be accomplished if the utility is also present. This may often be impractical.

We believe that the commission would benefit from greater access to their staff and attorneys. The commission should consider how to best ensure full access. We offer the following alternatives:

- A group could be assigned, on a rotational basis, to each case. These individuals would be the party to the case; all others would be available to the commission members.
- Several staff could be assigned, on a rotational basis, directly to the commission. The criteria for selection may vary. The team could include all the professional disciplines, it could target the disciplines currently needed, or it could be a team of executive assistants. The remaining staff would be the party of record.

Although the above approaches have certain drawbacks, we believe that some separation would be achieved thus diminishing the ex parte communication problem. We believe this will enhance the commission's overall efficiency and effectiveness.

Recommendation No. 5

The APUC member's terms of office should be staggered.

The Alaska Public Utilities Commission has five members who are appointed by the governor and confirmed by the legislature in joint session to serve six-year terms. On October 31, 1993 two commission seats become available. Because the potential for

disruption of commission activity would be high with two new members coming in at the same time. We recommend the terms be staggered.

Currently, the terms are scheduled to end as follows:

Consumer seat (1)	October 31, 1993
Engineering seat	October 31, 1993
Legal seat	October 31, 1994
Consumer seat (2)	October 31, 1996
Finance seat	October 31, 1998

We propose this staggering be implemented by modifying the upcoming term of the engineering seat. We propose the following language be added to a temporary or special act:

The term of the Alaska Public Utilities Commission Engineering seat, which is scheduled to begin on November 1, 1993, shall end on October 31, 1995. This adjustment to the normal six-year term, as established under AS 42.05.030(a), is necessary to appropriately stagger commission membership.

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY

STATE OF ALASKA

907 465-3867
P.O. Box 907
Juneau, Alaska 99801

30 Seward Street
Juneau, Alaska 99801

MEMORANDUM

January 30, 1995

SUBJECT: Sectional summary of SB 47
(APUC extension and other utility matters)

TO: Senator Tim Kelly
Attn: Josh Fink

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Sec. 1 permits the Alaska Public Utilities Commission (APUC) to exercise the powers expressly granted or reasonably implied by the chapter. The section removes a requirement that the powers of the APUC be liberally construed to accomplish the commission's stated purpose.

Sec. 2 establishes a regulatory cost charge on utilities. Under subsection (a), regulated public utilities pay an annual charge not to exceed 3 percent of in-state gross revenue and exempt public utilities pay the actual cost of services provided by the commission.

Under subsection (b), the commission adopts regulations to set the method for determining the annual amount of the regulatory cost charge. Subsection (c) establishes special rules for utilities selling services at wholesale, local exchange telephone utilities, and electric utilities.

Subsection (d) directs the commission to allocate the total amount of the regulatory cost charge to be paid by electric utilities by using an equal charge per kilowatt hour.

Subsection (e) directs the Department of Revenue to collect and enforce the regulatory cost charge and the Department of Administration to identify how much of the APUC's operating budget lapses into the general fund each year. This will permit the legislature, if it wishes, to appropriate that amount for the following year's budget so that the APUC can set a lower regulatory cost charge for the second year to reflect the surplus from the previous years' collection.

~~_____~~
- SECTIONAL ANALYSIS -

Subsection (f) requires the APUC to allow public utilities to bill their customers for the cost of the regulatory cost charge.

Subsection (g) allows the APUC and the Department of Revenue to adopt regulations

Subsection (h) defines terms used in the section.

Sec. 3 directs the APUC to consider the amount that a utility pays as a regulatory cost charge when allocating the costs of a hearing.

Sec. 4 provides that the subscribers of small electric and telephone utilities can petition to place the utility under APUC regulation by following the procedures set out in AS 42.05.712(h), which is amended by sec. 12 of the bill.

Sec. 5 permits electric and telephone utilities that do not gross \$500,000 annually to elect to be exempt from regulation under AS 42.05.712. The current threshold is \$325,000.

Sec. 6 permits utilities, other than electric and telephone utilities, that do not gross \$150,000 annually to elect to be exempt from regulation under AS 42.05.712. The current threshold is \$100,000.

Sec. 7 exempts garbage collection utilities that gross \$300,000 or less from rate regulation unless the subscribers petition for regulation under AS 42.05.712(h), amended by sec. 12 of the bill. The current threshold is \$200,000. The section retains the right of subscribers representing 25 percent of the gross revenue of a utility to petition the APUC for rate regulation.

Sec. 8 provides that the subscribers of cable television service utilities can petition to place the utility under APUC rate regulation under AS 42.05.712.

Sec. 9 permits the subscribers of a utility that is exempt from regulation under AS 42.05.711(e), (i), or (k) to use the procedures of AS 42.05.712 in an election imposing regulation.

Sec. 10 establishes a regulatory cost charge for pipeline carriers. Under subsection (a), pipeline carriers pay an annual charge not to exceed 8 percent of in-state gross revenue. A regulatory cost charge may not be assessed unless the pipeline carrier operations are within the jurisdiction of the APUC.

Under subsection (b), the commission adopts regulations to set the method for determining the annual amount of the regulatory cost charge.

Subsection (c) directs the Department of Revenue to collect and enforce the regulatory cost charge and the Department of Administration to identify how much of the

Senator Tim Kelli

January 11, 1995

Page 3

APUC's operating budget lapses into the general fund each year. This will permit the legislature to appropriate that amount for the following year's budget so that the APUC can set a regulatory cost charge for the second year to reflect the surplus from the previous year's collection.

Subsection (c) allows the APUC and the Department of Revenue to adopt regulations

Subsection (e) defines "gross revenue" as used in this section.

Sec. 11 directs the APUC to consider the amount that a pipeline carrier pays as a regulatory cost charge when allocating the costs of a hearing.

Sec. 12 extends the sunset date for the Alaska Public Utilities Commission until June 30, 1999.

Sec. 13 adjusts the way in which the terms of members of the APUC are staggered to ensure that no more than one commission member's term expires each year.

Secs. 14 and 15 provide that the amendment, in sec. 1, concerning how the APUC's powers are to be interpreted applies only to proceedings begun on or after the effective date of sec. 1, which is set in sec. 15 as July 1, 1996.

Sec. 16 states that, except for sec. 1, the Act takes effect immediately.

TC kib

95-023 kib

Alaska Public Utilities Commission

APUC FY94 overview

Since statehood in 1959, the Alaska Public Utilities Commission has been working with the hundreds of public utilities in Alaska with the same mission in mind - to ensure continued service, sound management, and fair rates for residents in all corners of the state. The Commission regulates utilities that bring water, electric, gas, and telecommunications into our homes, as well as overseeing services that collect and dispose of our waste. In 1981 the APUC's role was expanded to include oversight of pipeline carriers and pipelines when it merged with the Alaska Pipeline Commission.

Utility commissions were originally created to protect consumers, since most utilities were monopolies. Today, Commissioners are faced with the challenge of evaluating regulations and considering policy changes to encourage competition while continuing to maintain consumer protection as a primary goal.

In situations where monopolies exist, the Commission monitors the utility to ensure fair pricing practices, reasonable service, financial stability, and accountability. The Commission balances the legitimate need for utilities and pipeline carriers to show a profit for their investment, and the public's right to receive fair service for its money. Commissions in all 50 states serve the same general mission, regulating the relationship between the utilities and the consumers they serve.

The Commission achieves this balance by issuing "certificates of public convenience and necessity" to qualified service providers. A certificate essentially acts as a license to operate and details how the utility or pipeline carrier must conduct business with consumers or shippers concerning rates. The Commission establishes rates, terms, and conditions of service while overseeing the practices, services, and facilities of regulated utilities and pipeline carriers. In the next few years, new approaches and a broader perspective will be necessary as the Commission works to address complex issues and to make appropriate regulatory decisions for all Alaskans.

The APUC has jurisdiction over the operations of:

- electric utilities
- natural gas utilities
- refuse (garbage) collection
- wastewater (sewer) treatment
- steam producers
- telephone companies (local and in-state services)
- water utilities
- oil and gas pipeline carriers.

Cellular phone, cable television, and radio common carriers are regulated to a lesser extent.

The Commission has issued 359 certificates of public convenience and necessity (certificates) held by utilities and pipeline carriers.

Approximately one-third of the 358 certificates are for utilities whose services and operations are fully regulated

by the Commission. The authority to regulate some types and sizes of utilities is limited under the law. Many electric utilities in rural communities are exempt from regulation because of their small size. Some cooperatives and government-owned utilities are also exempt because they have alternative means of accountability to the consumer. Of the 359 certificates held, the Commission currently regulates the rates, services, practices, or facilities of 104 utilities and 15 pipeline carriers.

In addition, the Commission is responsible for computing the power costs and resultant state assistance amounts for customers of electric utilities participating in the Power Cost Equalization (PCE) program.

The Commission carries out its regulatory responsibilities through several means. It conducts audits, investigations, public meetings, tariff action meetings, formal adjudicatory proceedings, informal meetings, and conferences; and resolves complaints by telephone, mail, meeting, or adjudication.

The Commission functions as a quasi-judicial body when rendering decisions in formal proceedings and as a quasi-legislative body when promulgating regulations. Its proceedings and determinations are governed by the statutes and regulations of the state.

Funding

Funds to pay for Commission operations have historically been provided through the state's general fund. In 1992 following the legal mandate of the legislature, the Commission enacted regulations allowing it to recover its operating costs through an assessment on the revenues of the utilities and pipeline carriers it regulates. That Regulatory Cost Charge (RCC) shows up as a surcharge on monthly billing statements to consumers and shippers.

The legislature appropriated and the governor approved a FY95 budget of \$3.635 million, funded 100 percent from program receipts, in the form of the Regulatory Cost Charge. There are no unrestricted general funds in the FY95 appropriation. To raise the \$3.7 million for operating costs, the revenue assessment was set at 43 cents per \$100 for all utilities except electric utilities (assessed at .0412 cents per kilowatt hour).

With provisions of the sunset law clouding the Commission's long-term existence and its funding mechanism set to expire even sooner, the APUC has been forced to adapt to an uncertain future at least until corrective action can be taken by the Legislature.

APUC FY94 overview (continued)

Alaska Public Utilities Commission

	FY93	FY94	Percent change
Appropriations			
71000 Personal services	\$2,455,400	\$2,612,500	6%
72000 Travel	57,800	53,600	-7%
73000 Contractual	1,163,500	872,400	-25%
74000 Commodities	43,700	60,700	39%
75000 Equipment	20,400	25,000	23%
TOTALS	\$3,740,800	\$3,624,200	-3%

**Operating
Budget
FY94
(7/1/93
to 6/30/94)**

	Expenditures		
	FY93	FY94	Percent change
71000 Personal services	\$2,366,884	\$2,462,960	4%
72000 Travel	47,777	56,508	18%
73000 Contractual	913,309	800,962	-12%
74000 Commodities	94,049 ¹	63,615	-32%
75000 Equipment	71,327	33,470	-53%
TOTALS	\$3,493,348¹	\$3,417,515	-2%

Revenue receipts²

General Fund Program Receipts:	\$3,897,553 ³	\$3,482,122	-11%
TOTAL REVENUES	\$3,897,553	\$3,482,122	-11%

1. Corrected number from FY93 Annual Report.
2. The Commission received revenues under various provisions of its statutes including copying and postage charges (AS 42.05.201) and cost allocations in proceedings (AS 42.05.651/AS 42.06.610).
3. The Commission funding was changed to General Fund Program Receipts in FY93 (3 AAC 47) under the Regulatory Cost Charge program.

The Alaska Public Utilities Commission is working this fiscal year in the shadow of a dilemma. While the Commission remains a target with carrying out its regulatory mandate, its annual funding mechanism was not extended by the last Legislature nor was the APUC's very existence extended beyond June 1995.

There was no formal opposition to extending the APUC -- in fact the state's 1995 budget includes full funding for the Commission. But because no legislative action was taken to the contrary, the Commission fell victim to the state's sunset law and was terminated June 30, 1994. That began the Commission's one-year wind-down period. Under the 1977 Sunset Law, several state boards and commissions are set to periodically and automatically expire unless specifically renewed.

Compounding the confusion is the fact that legislation extending the APUC's authority to levy a Regulatory Cost Charge (RCC) from utilities and pipeline carriers was held up and died on the House floor during the last day of the regular session. Because the Legislature did not act on the RCC issue, which generates 100 percent of the funding for the Commission's approximately \$3.63 million annual budget, there is no mechanism for collecting money after December 31, 1994.

With provisions of the Sunset Law clouding the Commission's long-term existence and its funding mechanism set to expire even sooner, the APUC has been forced to adapt to an uncertain future -- at least until corrective action can be taken by the Legislature.

With legal guidance from the State Attorney General's office, the APUC will continue undiminished in pursuit of its regulatory mandate until it is forced to close its office on June 30, 1995 under the sunset law. As the Assistant Attorney General's June opinion to the APUC stated, "We advise that the Commission should continue to perform its statutory duties to the extent possible while developing a plan to phase out its work by the close of the sunset year."

In August the APUC also adopted a policy strongly recommending to the Legislature and the Governor that a simple reauthorization bill be promptly introduced and passed to do just two things: extend the Commission for four years and to make permanent the RCC. Other APUC legislative business could be deferred in the interest of prompt passage of these bills.

The Alaska Public Utilities Commission is doing everything possible to maintain a normal schedule during its wind-down year. However, those things that will be neglected, and the consequences from such neglect, may grow more serious each day.

As the Commission is compelled to complete its affairs the potential disruption may become severe:

- 1) applications for a certificate of public convenience and necessity, or for changes in service area or transfer of a certificate received after December 31, 1994 may not be processed before June 30, 1995;

APUC: Working in the shadow of the Sunset Law

APUC: Working in the shadow of the Sunset Law (continued)

2) processing of new cases involving utility or pipeline rate changes or new requests may be disrupted. Normally, when a filing is suspended for investigation, the suspension period is five or six months. Therefore, dockets cannot be opened after December 31, 1994 with the normal suspension period. Accelerating the dockets is not an option because utilities and pipeline carriers are entitled to due process; and

3) regulatory proceedings will be suspended for dockets where the regulations may not take effect before the termination date.

The Commission is mandated by law to **conclude** its affairs by June 30, 1995. AS 44.66.010(b). To wrap up as many dockets as possible by that deadline, and to minimize the loose ends, the Commission must, according to statutes, focus its attention on concluding its affairs.

Additionally, under current law the authority to charge the Regulatory Cost Charge (RCC) expires December 31, 1994, halfway through the fiscal year. The Commission has obtained an Attorney General's opinion citing that the Commission can collect the full amount of the annual FY95 appropriation by December 31, 1994, and has adopted regulations to accomplish this. The Commission was directed to submit its FY96 budget request with program receipts as the source, thereby assuming that the RCC will be reenacted.

Sunset extension early in first session of the Legislature is needed to avoid severe disruption of utilities and pipeline carrier regulation. It was only the hurried activity of the closing days of last year's legislative session that prevented action assuring the extension of the Alaska Public Utilities Commission. The Commission looks forward to a prompt and positive resolution of the issues affecting its authority and funding.



Tamara Alexander (records and filings supervisor), Belessa Doughty (documents processor), Sonia Cornejo (documents processor)



Pat Odenburg (administration supervisor)

ALASKA STATE SENATE

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE
SIXTEENTH ALASKA LEGISLATURE
SEVENTEENTH ALASKA LEGISLATURE

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SENATOR TIM KELLY

SB 47: Relating to the Alaska Public Utilities Commission and the Regulatory Cost Charge

Consensus Provisions from 18th Legislature

Senate Bill 47 (SB 47) is the re-introduction of SB 213 from the 18th Legislature. This legislation accomplishes two primary objectives: 1) It extends the Alaska Public Utilities Commission (APUC) which is currently winding down in its sunset year; and 2) It re-enacts the Regulatory Cost Charge (RCC) which expired on December 31, 1994.

This legislation was the product of numerous and lengthy committee hearings in the last Legislature – in fact, more than 8 substantive hearings in the Senate alone.

Given the unknown but potentially serious ramifications of allowing the APUC to expire, this legislation was introduced as a "consensus" bill in that all provisions contained within have been debated extensively and are either without opposition, or the result of compromise agreed to by all concerned parties and in the best interest of consumer protection. This version is nearly identical to the final version that would have reached the House floor last May 10th had that body not adjourned before it was taken up. It is not exactly identical because the RCC has expired and so rather than repealing its sunset, the entire RCC was re-enacted.

Another bill has been introduced by the Senate Labor & Commerce Committee that will incorporate for the committee's consideration further amendments affecting the APUC and/or RCC.

SECTIONAL ANALYSIS

Section 1: Replaces language granting the commission powers which shall be "liberally construed" with language allowing the commission to do "all things necessary or proper to carry out the purposes and exercise the powers expressly granted or reasonably implied".

This compromise was reached last year in the Senate Finance Committee. Some utilities, namely electrics, felt this grant of power was too broad, and in questions where the commission did not have express authority to act, the legislature should make such policy calls. Others, besides the APUC itself, felt this provision was necessary for the efficient and orderly functioning of the commission in the regulation of utilities for the public interest. This language strikes a balance and was acceptable to all parties concerned.

Sections 2, 3, 10 and 11: Re-enact the RCC for utilities and pipelines without the sunset. This language is identical to the former law with the following exceptions:

There are no sunset provisions for the regulatory cost charges.

This provision was proposed by the auditor and supported by the APUC. Both assert the Commission's sunset review is adequate to address any issues that arise with the Regulatory Cost Charge.

Page 3, lines 11- 13:

Adjusts the allocation of the Regulatory Cost Charge for electric utilities by subtracting the cost of power from there gross revenues.

The auditor recommended the APUC periodically adjust the RCC allocation among utility types to reflect workload on an industry by industry basis utilizing a time-keeping system. However, the commission argued such a change would be complicated and require more staff. ARECA proposed this "rough cut" justice as a simplified and more economical way to achieve the auditor's recommendation.

**Page 2, line 27;
and Page 6, line 4:**

Increases the regulatory cost charge ceiling for public utilities and pipeline carriers from .61 percent to .8 percent.

This change was necessitated when cost of power was subtracted from electric utilities gross revenues before application of the RCC. The RCC rate would need to be increased roughly 30 percent to maintain the same amount of revenue for the commissions operating costs. (Remember, the RCC is a direct pass through on our utility bills, and is itemized as the RCC).

Page 3, lines 20-24;
and Page 6, lines 15-19:

Requires the Dept. of Administration to earmark regulatory cost charges over-collected for possible appropriation by the Legislature for the commission's next fiscal year.

Currently, by the time 4th quarter Regulatory Cost Charges charges arrive in July, the new fiscal year has started. If the APUC has over-collected, and they won't know until the 4th quarter receipts arrive, the money lapses into the general fund. This section would allow those over-collected funds to be appropriated back to the APUC thus reducing the next year's RCC.

Sections 4.8 and 9: Provides that subscribers of small utilities or utilities otherwise exempt from regulation can petition for an election to place the utility under regulation under the same procedures the subscribers of a regulated utility can petition for an election to remove the utility from regulation.

This provision was recommended by the auditor and supported by the commission. Under current statute, 10 percent of the first 5,000 subscribers of a regulated utility and 3 percent of the remaining subscribers may petition for an election to remove a utility within certain revenue parameters from regulation. However, for subscribers to petition for an election to place an unregulated utility under regulation they must gather the signatures of 25% of the subscribers. The auditor recommended the procedures for subscribers to opt-in or opt-out of economic regulation should be easier. These sections provide that opt-in and opt-out procedures are identical.

Sections 5.6. and 7: Gives more consumers the option to deregulate by raising maximum amount of gross revenues a utility may receive under which the consumers may elect for deregulation.

Currently, electric and telephone utilities that do not gross \$325,000 annually may elect to be exempt from regulation. Section 5 increases that amount to \$500,000. For other utilities the cut-off was raised from \$100,000 to \$150,000, except for garbage collection utilities the amount was raised from \$200,000 to \$300,000.

These provisions were recommended by the auditor and supported by the commission. They increase the consumers options to deregulate.



Auditor
Recommendations

Section 12: Extends the sunset date of the APUC to June 30, 1999.

Section 13: Staggers the terms of the members of the mission.

Currently, the terms of the consumer seat and the engineering seat expire at the same time. This provision would stagger the terms, though it would not affect the terms of any of the current commissioners.

Section 14 and 15: Provides that the change in the commission's powers as amended in section 1 apply only to proceedings begun on or after the effective date of section 1, which is set in section 15 as July 1, 1996.

Section 16: Except for section 1, the Act has an immediate effective date.

Sec 16
failed -
Sen.

ALASKA PUBLIC UTILITIES COMMISSION
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

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ANCHORAGE, ALASKA 99501-1563
PHONE (907) 275-6222
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March 1, 1997

Mr. Randy S. Welker, CPA
Legislative Auditor
Legislative Budget and Audit Committee
P.O. Box 113300
Juneau, Alaska 99811-3300

Ref: Audit Control No. 08-1404-93

Dear Mr. Welker:

On behalf of the Alaska Public Utilities Commission (Commission), I appreciate the opportunity to respond to your agency's audit of the Alaska Public Utilities Commission (08-1404-93). The Commission concurs with your finding in the "Report Conclusions" that the life of the Commission be extended until June 30, 2003. Therefore, this letter will focus on the Commission's response to your "Findings and Recommendations".

The audit states on page 1 "APUC was created to regulate public utilities so that citizens could enjoy adequate service at the **lowest reasonable rates**" (emphasis added). The actual ratemaking standard applied by the statute is "just and reasonable".

Recommendation No. 1 Alaska Statute 42.05.253 should be amended to require APUC to periodically adjust the regulatory cost charge (R.C) on an industry by industry basis. Further, the automatic repeal date of this statute should be deleted.

The Commission agrees that the program should be made permanent by deleting the automatic repeal date for the Regulatory Cost Charge Program (RCC). Last year the legislature switched the funding source for the Commission from general funds to this regulatory assessment. The Commission expended significant resources in developing regulations and procedures to make the program work and to make compliance by affected entities as straightforward as possible. The program is in place and running smoothly.

However, the Commission cannot support the recommendation to require itemization of the rates under the RCC program by utility/pipeline carrier type. Although in theory the recommendation has some merit, it is not at all clear to the Commission that it would be either practical or cost-effective to attempt to implement it at this time.

To carry out this recommendation fully, the repeal date for AS 42.06.285 (pipeline carrier regulatory cost charge) should also be deleted.

Letter to Mr. Randy Welner, CPA
Page 2 of 3
March 1, 1993

Individual RCC rates would require full and direct allocation of the Commission's costs. The recommendation, if implemented as drafted, would substantially increase the cost of the RCC program. Full cost allocation would be expensive, especially during the year when it was implemented. A permanent increment to the Commission's budget would be required. The Commission would face a new administrative burden of setting individual RCC rates and handling protests to the rates.

One of the key principles guiding the development of the RCC was simplicity. The Commission has been able to absorb the ongoing costs of the RCC program from its existing budget, because the program has been kept simple and workable. Your recommendation for further refinement of the RCC would require the statutory cap of .61% of adjusted gross revenues (AS 42.05.253(a)) to be substantially increased. Based on your estimates by utility type for purposes of discussion, the current authorized budget for the Commission would require increasing the cap to .85% for certain utility groups, at a minimum.

From the perspective of most utility customers facing a regulatory cost charge bill of less than \$20 per year, different rates for different utility types would not have a measurable effect on their total bill.

Recommendation No. 2 Alaska Statute 42.05.711 should be amended to make it easier for utility consumers to opt in or out of regulation.

The Commission agrees in part. Since the legislature reached a policy conclusion that small utilities ought to be provided the statutory option to deregulate by majority vote, it seems appropriate to periodically adjust the gross revenue cutoff levels to maintain this as a realistic option. These gross revenue cutoff levels have not been adjusted since they were enacted in 1980.

Increasing the cut-off from \$325,000 to \$500,000, for example, would allow the members of nine additional economically regulated electric utilities to decide whether to vote for deregulation. They are Bettles, Far North, Gustavus, Manley, Middle Kuskokwim, Napakiak, Northway, PUI and Teller. Middle Kuskokwim is already eligible to vote for deregulation as a cooperative under AS 42.05.711(h). Attachment #1 lists electric and telephone utility gross revenues.

The cut-off for local exchange telephone companies would have to be increased from \$325,000 to approximately \$850,000 in order for any other utility to qualify for the option of voting to deregulate.

The Commission does support increases in the cutoff levels if there

Letter to Mr. Randy Welker, CPA
Page 7 of 7
March 17, 1990

is some compelling evidence that the benefits of regulation are not commensurate with the cost. Although the enactment of the RCC has quantified the cost side, the benefits, although tangible, are still difficult to quantify.

Recommendation No. 3 APUC should establish a timekeeping system.

The Commission agrees that this recommendation is worthwhile to pursue. If accomplished for internal management purposes, the system could be designed relatively economically. However, if the system is required to serve as the basis for billings, such as those recommended in Recommendation #1, it would be substantially more costly. In either case a fiscal note would be required to carry out this recommendation.

Recommendation No. 4 APUC should consider how to best ensure commission member access to adequate staff support and advice.

The Commission agrees.

Commission staff become a party to a proceeding only when designated to be so by Commission order. This decision is typically made by the Commissioners in adjudicatory session soon after a docket is established.

The Commission is familiar with the alternate models for deployment of the staff resources outlined in your report and will continue to entertain possibilities for improvement.

The Commission believes that a simplified method of obtaining counsel to support the Commission under contract is needed for cases where the attorney general represents staff as a party. Extended procurement procedures and the approval of the attorney general to selected the legal contractor both complicate this process.

Recommendation No. 5 The APUC member's terms of office should be staggered.

The Commission agrees. Legislation would be required to accomplish this change.

Thank you for the opportunity to respond.

Sincerely,
Don Schröder



Chairman