

HB

515

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 515
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title Municipal Water & Sewer Utilities RDU RCA Audits & Investigations (508)
 Component RCA Audits & Investigations
 Sponsor Labor & Commerce
 Requester House Community & Regional Affairs Component No. 2740

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	(45.7)	(61.0)	(61.0)	(61.0)	(61.0)	(61.0)

CAPITAL EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
CHANGE IN REVENUES (1141)	(45.7)	(61.0)	(61.0)	(61.0)	(61.0)	(61.0)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1141 - RCA Receipts	(45.7)	(61.0)	(61.0)	(61.0)	(61.0)	(61.0)
TOTAL	(45.7)	(61.0)	(61.0)	(61.0)	(61.0)	(61.0)

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would remove the Municipality of Anchorage d/b/a AWWU (water and sewer utilities) from Regulatory Commission of Alaska (RCA) oversight. The RCA Audits & Investigations component will see a reduced workload as a result of this legislation. The RCA's budget is funded through the Regulatory Cost Charge (RCC) mechanism and direct charge mechanisms. No general funds are allocated for support of the agency.

AWWU is expected to pay a total of approximately \$406,550 in RCCs in FY 2004. The RCA estimates \$45.7 of this reduction would occur in RCA Audits & Investigations. Some RCCs would be realized in FY 2005 if an effective date of July 1, 2004 is assumed.

Prepared by: Mark K. Johnson, Commissioner, Chair Phone (907) 276-6222
 Division Regulatory Commission of Alaska Date/Time 3/3/04 5:30 PM
 Approved by: Edgar Blatchford, Commissioner Date 3/3/2004
 Agency Department of Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 515
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title: Municipal Water & Sewer Utilities RDU: Regulatory Commission of Alaska (399)
 Component: Regulatory Commission of Alaska
 Sponsor: Labor & Commerce
 Requester: House Community & Regional Affairs Component No. 2417

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	(258.8)	(345.6)	(345.6)	(345.6)	(345.6)	(345.6)

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1141)	(258.8)	(345.6)	(345.6)	(345.6)	(345.6)	(345.6)
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1141 - RCA Receipts	(258.8)	(345.6)	(345.6)	(345.6)	(345.6)	(345.6)
TOTAL	(258.8)	(345.6)	(345.6)	(345.6)	(345.6)	(345.6)

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	-2	-2	-2	-2	-2	-2
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*
 This legislation would remove the Municipality of Anchorage d/b/a AWWU (water and sewer utilities) from Regulatory Commission of Alaska (RCA) oversight. The RCA's budget is funded through the Regulatory Cost Charge (RCC) mechanism and direct charge mechanisms. No general funds are allocated for support of the agency. The RCC is recalculated each year and allows the agency to recover its operating costs through an assessment on the revenues of the utilities and pipeline carriers it regulates.

 AWWU is expected to pay a total of approximately \$406,550 in RCC's in FY 2004. The RCA estimates loss of this revenue will result in the loss of 2 positions within the agency for a total reduction of \$258.8 in this component. The precise distribution of operating expense reductions has not been determined at this time. Some RCC's would be realized in FY 2005 if an effective date of July 1, 2004 is assumed.

Prepared by: Mark K. Johnson, Commissioner, Chair Phone (907) 276-6222
 Division: Regulatory Commission of Alaska Date/Time 3/3/04 5:36 PM
 Approved by: Edgar Blatchford, Commissioner Date 3/3/2004
 Agency: Department of Community & Economic Development

ALASKA STATE HOUSE OF REPRESENTATIVES

Alaska State Capitol
Juneau, Alaska 99801
Room 432



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Representative Tom Anderson

MEMORANDUM

Date: February 24, 2004

To: Representative Carl Morgan, Chair
House Community & Regional Affairs Committee

From: Representative Tom Anderson, Chair *T.A.*
House Labor & Commerce Committee

Re: HB 515

I would request you schedule HB 515 for a hearing before your committee at your earliest convenience. If your committee schedule allows, March 4th would be the soonest we could coordinate the appropriate witnesses to testify.

This legislation would require an exemption from regulation by the Regulatory Commission of Alaska (RCA), something that every other municipally owned utility in Alaska, except one, already enjoys (the City of Pelican requested continued RCA regulation of its water utility when it was sold). Anchorage as the largest, most highly sophisticated city in the state is fully capable of soundly regulating its own municipally owned utilities. Self-regulating Anchorage's water utility would save ratepayers money and enhance local control.

Anchorage has extensive experience regulating other municipally owned enterprises. The Port of Anchorage, Merrill Field, and Solid Waste Services are all financially sound and provide first class customer service. Actually, Anchorage has self-regulated its public utilities for more years than have state regulators. RCA regulation is slow, expensive and partially duplicates the review process that the municipal administration and assembly already apply. AWWU ratepayers pay in excess of \$500,000 per year to the RCA to cover the cost of regulation. The greater cost is in the form of regulation lag, the delay in obtaining approval of a requested rate change.

Thank you for your consideration of this request. Please contact Josh Applebee at 4954 in my office if you have any additional questions.

Anchorage Water and Wastewater Utility

SELF-REGULATION FOR MUNICIPAL WATER AND SEWER UTILITIES

Introduction

The Municipality of Anchorage and the Anchorage Assembly have designated "Regulating Anchorage's Own Water/Wastewater Utilities" as an important municipal legislative priority for 2004. This bill would exempt AWWU from regulation by the Regulatory Commission of Alaska (RCA), the same status that every other municipally owned water/wastewater utility in Alaska, except one. Anchorage as the largest, most highly sophisticated city in the state, is fully capable of properly regulating its own municipally owned utilities. Self-regulating Anchorage's water/wastewater utility will save rate-payers money and enhance local control.

Why is the MOA requesting exemption from RCA Regulation?

Except for the City of Pelican, **no other municipally owned water/wastewater utility is regulated by the RCA.** (Pelican requested regulation of its water utility by the RCA.)

AWWU has provided its customers excellent service, low, stable rates and sound finances, as well as continuity of management. Over the years, the mayor and assembly have made sound decisions in their oversight of municipally owned utilities. Municipal public hearings are held on any proposed rate increase. Municipal regulation will continue to balance consumer protection with the financial soundness of the public utility. It will require the utilities to continue to operate on a sound business basis. The process will be accountable to local people, more responsive, timely and economical than current RCA regulation.

Local Regulation of Municipal Water and Wastewater Utilities

The Municipality is directly accountable to the ratepayers served by the utilities. They are the voters. The Municipality is more responsive to local needs. The MOA has experience successfully regulating enterprise activities. Anchorage has extensive experience regulating other municipally owned enterprises. The Port of Anchorage, Merrill Field and Solid Waster Services are all financially sound and provide first class customer service. Actually, Anchorage has regulated its own public utilities for more years than have state regulators. Local regulation is faster, less structured and more economical. Public hearings are held by the Municipality on rate matters.

The MOA believes the current RCA regulation processes and procedures are cumbersome, slow, expensive, and non-responsive to local needs. AWWU ratepayers paid about \$350,000 in 2003, and are projected to pay about \$500,000 in 2004, to the

RCA to cover the cost of regulation. The greater cost is in the form of regulatory lag, the delay in obtaining approval of a requested rate change. It was designed for private utilities and is not entirely appropriate for municipal utilities. Despite a legislative mandate to speed up processing of regulatory filings, the commission still faces a substantial backlog of work. Ratepayers are required to pay for the expensive RCA regulatory process as a surcharge on every bill, whether or not their utility has a case pending. For example from 1993 until 2003 AWWU never had a rate increase from the RCA or the APUC, yet ratepayers have paid a regulatory assessment to the RCA as part of every bill.

What will self regulation accomplish?

Self regulation has worked effectively in other Alaskan communities, in Anchorage with the Port of Anchorage, Merrill Field and Solid Waste Services and across the nation. The MOA has a proven track record of effectively regulating the Port of Anchorage, Merrill Field and Solid Waste Services, which are all financially strong and highly reputable enterprises. Self regulation has proven to be cost effective, timely and responsive to local needs, while protecting consumer rights.

The Municipality in 1991 petitioned the APUC (predecessor to the RCA) to exempt AWWU and the electric utility from regulation. The Commission split evenly, by a 2-2 vote, on the question of exempting the electric utility and AWWU. The opinion by the commissioners who opposed self-regulation cited competition by the electric utility and telephone utility then owned by Anchorage with other utilities as the primary reason why AWWU should remain regulated by the state. No commissioner suggested that water/wastewater competition with another utility was present. Nor is there competition here today.

Section 711 of the Alaska Public Utilities Regulatory Act was amended as recently as the year 2000 by SB 324 to protect Ketchikan's public utilities, which have been self-regulated for 50 years, from the risk of regulatory takeover by the RCA in light of possible telephone competition. This bill expands that municipal exemption to any municipally owned water or wastewater utility that is not directly competing with another utility. AWWU fits this bill.

History of Regulation of AWWU

AWWU is two separate utilities, both subject to economic and service area regulation by the Regulatory Commission of Alaska (RCA). The Water Utility (AWU), a former City of Anchorage utility, has been under RCA regulation since inception of the Alaska Public Utilities Commission (APUC) in 1970. Anchorage Sewer Utility (ASU), which was formerly owned by the Greater Anchorage Area Borough, was voluntarily submitted to the APUC for regulation in 1971. The umbrella organization, Anchorage Water and Wastewater Utility (AWWU), was formed in 1975, following unification; however, the two utilities continue to be separate enterprise funds and to be regulated as separate utilities with separate certificates and tariffs by the RCA (formerly APUC).

Local Regulation of Municipal Water and Wastewater Utilities

The Municipality of Anchorage (MOA) owns Anchorage Water and Wastewater Utilities. HB 515 would provide the MOA the same regulatory responsibility over these utilities as state law provides to every other municipally owned water/sewer utility in Alaska except Pelican. Local regulation of these utilities is overdue because:

- 1) The Municipality is directly accountable to the ratepayers served by the utilities. They are the voters.
- 2) The Municipality is more responsive to local needs.
- 3) The MOA has experience successfully regulating enterprise activities. They are financially sound.
- 4) With a single exception, no other municipally owned water and wastewater utility in the state is economically regulated.
- 5) Local regulation is faster, less structured and more economical.
- 6) Public hearings are held by the Municipality on rate matters.

The Regulatory Commission of Alaska (RCA) process is lengthy, costly and inflexible. It was designed for private utilities and is not totally appropriate for our municipal utilities.

Ratepayers are required to pay for the expensive RCA regulatory process as a surcharge on every bill, whether or not their utility has a case pending. For example from 1993 until 2004 AWWU never had a rate increase from the RCA or the APUC, yet ratepayers must pay a regulatory assessment to the RCA as part of every bill. (There was a slight rate reduction for wastewater in 2001.)

Despite a legislative mandate to speed up processing of regulatory filings, the commission still faces a substantial backlog of work.

Last year the agency was controversial. The battle over its sunset extension required a special session to resolve.

RCA commissioners turn over frequently and often lack experience in utility regulation before their appointment.

The process is generally not responsive to local needs and differences.

The rates, services and practices of Solid Waste Services are under the local control of the Mayor and Assembly.