

**SB**

**16**

# SENATE COMMITTEE REPORT

DATE: 3/2/07

FURTHER: Finance

DATE TURNED  
IN TO OFFICE: \_\_\_\_\_

State Affairs Committee considered SENATE BILL NO. 16

## SB 16 EXTEND REGULATORY COMMISSION OF ALASKA

"An Act extending the termination date for the Regulatory Commission of Alaska; and providing for an effective date."

and recommends:

- be replaced with  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

**SENATE BILL:**  
 Same Title  
 New Title

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**HOUSE BILL:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

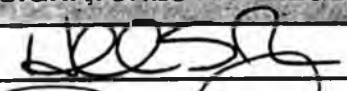


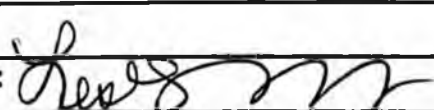
**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
CCED	2/14	✓			

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	NO REC	AMEND
	French			X	
	STUMPF			X	
	Burde	✓			
CHAIR: 	McQuire	✓			

# FISCAL NOTE

**STATE OF ALASKA**  
**2007 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSSB 16(CRA)  
 (S) Publish Date: 3/2/07

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Commerce  
 Title Extend Regulatory Commission of Alaska RDU Regulatory Commission of Alaska (399)  
 Component Regulatory Commission of Alaska  
 Sponsor Therriault  
 Requester Senate Community & Regional Affairs Component No. 2417

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services		5,364.6	5,364.6	5,364.6	5,364.6	5,364.6
Travel		55.0	55.0	55.0	55.0	55.0
Contractual		1,530.9	1,530.9	1,530.9	1,530.9	1,530.9
Supplies		56.9	56.9	56.9	56.9	56.9
Equipment		12.6	12.6	12.6	12.6	12.6
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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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		7,020.0	7,020.0	7,020.0	7,020.0	7,020.0
<b>TOTAL</b>	<b>0.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>

Estimate of any current year (FY2007) cost: 6,495.3

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

**POSITIONS**

Full-time	57	57	57	57	57	57
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation extends the Regulatory Commission of Alaska (RCA) to June 30, 2015. In accordance with AS 44.66.010, funding is extended one year following the termination date allowing the commission to conclude its affairs.

The RCA 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.

Prepared by: Kate Giard, Chairman Phone 907-276-6222  
 Division Regulatory Commission of Alaska Date/Time 2/14/07 11:00 AM  
 Approved by: Emil Notti, Commissioner Date 2/14/2007  
 Agency Commerce, Community, and Economic Development

**Senate State Affairs Committee**  
**Sectional Analysis of Committee Substitute for Senate Bill No. 16**  
**Addressing RCA Re-authorization and Other Operating Matters Under**  
**AS 42.05 Public Utilities Act and AS 42.06 Pipeline Act**

**Bill History To Date**

Senator Therriault pre-filed the RCA re-authorization bill on January 5, with an initial extension period of 8 years to June 30, 2015, reflecting the recommendation of Legislative Audit.

The bill was heard in Senate CR&A, and the re-authorization period was amended to to 6 years with compliance audits every two years. RCA's annual report requirements were amended to require reporting compliance with statutory timelines and other performance measures. Every two years, Leg. Audit will perform an audit of the underlying records to determine that the annual report information is accurate and complete.

Public testimony was favorable about the RCA's improvements over the past four years, but suggested that additional statutory revisions be considered, including:

1. That the timeline for a rate case be reduced from the current statutory timeline of 15 months.
2. That the RCA have an executive director or other position in place to aid the chairman in managing staff.
3. The RCA add an Administrative Law Section and a Natural Gas and Pipeline Section.
4. That RCA compensation be tied to Superior Court judge salaries and that the qualifications for commissioners be strengthened.

Many of the recommendations came as a result of RCA's statutory revision efforts November and December 2006. The RCA sent requests to all public utilities and pipeline carriers operating in the State asking about what should be changed to improve the RCA's operations. All materials and comments related to RCA's public process can be located at RCA's website at <http://rca.alaska.gov/data/docketDetail.html?docket=R-06-010> or by searching for docket R-06-010 on the RCA's data search page. At the end of the public process, the RCA issued a letter to the Governor requesting certain changes (attached).

## **Sectional Analysis of CS for Senate Bill No. 16 (STA)**

**Section 1. AS 42.20.271 Powers and Duties.** AS 42.20.271(10) – This section adds a new duty to Legislative Audit for the audit of RCA's annual report every two years.  
Passed by CR&A.

**Section 2. AS 39.25.120 Partially Exempt Service** AS 39.25.120(c) – This section grants the RCA the same supporting positions as executive branch departments.

AS 39.25.120(c)(2) – allowing division directors of RCA to be partially exempt.

AS 39.25.120(c)(4) – allowing the RCA chair to have one private secretary.

AS 39.25.120(c)(6) – allowing the RCA up to two special assistants.

AS 39.25.120(c)(18) – identifying the RCA chief administrative law judge, hearing examiners and administrative law judges as partially exempt employees.

**Section 3. 42.04.010 Regulatory Commission of Alaska created.** AS 42.04.010(b) – This section modifies the selection of a chair of the commission to appointment by the Governor to a four-year term and allows for consecutive terms. This language is the same as in the original APUC language. (1998 Statutes, AS 42.05.020(b))

**Section 4. AS 42.04.020 Commissioners.** (a) – This section amends the composition and selection criteria for RCA commissioners. The new criterion requires three members be qualified as lawyers, CPAs or certified professional engineers with ten year's experience in their professional fields and for two members of the commission to be at large. This amendment both increases the requirements of the commission and also will enable a wider selection from members of the public to serve on the commission.

**Section 5. AS 42.04.020 Commissioners.** (f) – This section amends the compensation of the RCA commissioners to be the same as the district court judges (\$129,000 annual compensation) and provides the chair with additional salary of \$1,200 per month (total annual compensation of \$143,400). In the originating statutes for the APUC, compensation for commissioners was tied to district court judge salaries.

**Section 6. AS 42.04.040 Legal counsel.** – This section amends the Department of Law’s requirements for providing legal counsel to the RCA. The Department of Law is frequently a party in RCA dockets, representing the State’s royalty interest or representing ratepayers in utility matters, while at the same time participating in RCA’s decision-making process as an adjudicatory advisor. These multiple roles can create the appearance of conflict of interest. The RCA had recommended to the Governor that it be allowed to create an Office of General Counsel within the Agency and remove the Attorney General’s representation of the RCA. This change is not supported by the Governor’s office or the Attorney General. These amendments are a compromise which allows the Attorney General to continue representing the Agency, but makes the following changes:

**AS 42.04.040(a)** – The Attorney General is to appoint at least two full time attorneys to act as regulatory legal counsel.

**AS 42.04.040(b)** – This section requires commission approval of the appointed legal counsel, similar to the language of the AOGCC. RCA legal counsel is to be permanently located with in the office of the RCA. One attorney is designated to be the Senior Regulatory Legal Counsel and has a direct reporting relationship with the Attorney General.

**AS 42.04.040(c)** – This section specifies the compensation level for the RCA’s appointed legal counsel at a Range 28, commensurate with the multiple federal jurisdictions (FCC and FERC) that the RCA operates as well as the broad regulatory jurisdiction in Alaska. This compensation level will allow the Department of Law to attract and retain high quality counsel for the RCA. RCA pays for Department of Law representation through an RSA.

**AS 42.04.040(d)** – This section specifies the compensation level for the RCA’s other Department of Law regulatory counsel appointed to the RCA. The Department of Law has had problems recruiting for the qualifications required of RCA’s legal counsel, seeking for nearly a year prior to filling a second position.

**AS 42.04.040(e)** – This section requires the Attorney General to confer with the RCA prior to setting the initial compensation level and regarding the annual performance evaluations for the RCA's appointed legal counsel.

**AS 42.04.040(f)** – This section requires the RCA to provide offices, association attorneys and paralegal support to RCA's legal counsel.

**AS 42.04.040(g)** – This provides an exemption for when the RCA must obtain the permission of the Attorney General to contract for specialized legal counsel.

**AS 42.04.040(h)** – This requires the Attorney General to notify the Chair when the appearance of conflict in its role as legal counsel arises and allows the RCA to contract directly for specified legal counsel when the Attorney General is unable to represent the RCA in state or federal jurisdictions.

**AS 42.04.040(i)** – This section prohibits the Attorney General from engaging in ex-parte communication with the RCA's regulatory legal counsel when the Attorney General is appearing before the RCA as a party and requires that any ex-parte communication be disclosed in the RCA's public record.

**Section 7. AS 42.04.050 Employment of commission personnel.** This section is amended to add new divisions to the RCA.

**AS 42.04.052** – This section codifies the RCA's Administrative Law Section and establishes the compensation levels for the chief administrative law judge (Range 27) and the administrative law judges (Ranges 25-26).

**AS 42.04.054** – This section codifies the RCA's Natural Gas and Pipeline Divisions and requires the RCA to hire a division director to manage the section.

**AS 42.04.056** – This section codifies the RCA's Utility Rules, Rates and Compliance Audit Section and requires division director to manage the section.

**AS 42.04.058** – This section codifies the RCA's Certificates, Applications and Service Areas Divisions and requires division director to manage the section.

**Section 8. AS 42.05.175 Timelines for issuance of final orders.** This section modifies current statutory timelines and adds new timelines for utility dockets and also codifies the timelines in number of days for the new case management system.

**AS 42.05.175(a)** – modifies the timeline for approval of a transfer of a certificate or to acquire a controlling interest in a certificated utility to 120 days (four months) from 180 days (six months).

**AS 42.05.175(b)** – changes months to days.

**AS 42.05.175(c)** – changes months to days and effective July 1, 2008, modifies the time period for a rate case from 15 months to 12 months (365 days).

**AS 42.05.175(d)** – changes months to days and broadens the timeline to include all petitions filed with the commission to have a timeline of 12 months (365 days).

**AS 42.05.175(e)** – changes months to days.

**AS 42.05.175(h)** – amends the applicability of the section to apply to include AS 42.05.175(d) to the provisions and to require a docket be closed with no action if the RCA does not address a docket it opened within one year.

**AS 42.05.175(k)** – Adds a new section to address timelines in consolidated matters.

**AS 42.05.175(l)** – Adds a new section clarifying that the commission shall not close and reopen a docket within the same fiscal year to avoid a statutory timelines.

**Section 9. AS 42.05.211 Annual Report.** – Amends the RCA's annual report filing date to November 15 and requires details about compliance with statutory timelines and other performance measures.

**Section 10. AS 42.05.254 Public utility regulatory cost charge.**– Revises the statutory limit for the Regulatory Cost Charges that provide revenues to support the RCA's and the Public Advocate's operations.

**AS 42.05.254(a)** Amends the statutory limit from .7% to .9% percent to fund commission operations and from .17 percent to .25 percent to fund the public advocacy within the Department of Law. Also changes the requirement that the RCA charge actual cost of service to a fee according to a fee schedule set by the commission for non-economically regulated utilities.

**AS 42.05.254(e)** – This section is amended to allow the RCA to collect the Regulatory Cost Charges rather than the Revenue Department to collect RCC charges. Revenue Department has worked with the RCA and supports this change.

**AS 42.05.254(g)** – This section requires the RCA to adopt regulations and procedures for collecting regulatory cost charges.

**Section 11. AS 42.06.140 General powers and duties. (a)(7)** – This section is amended to allow the RCA to participate in matters pending before federal jurisdictions.

**AS 42.06.140 General powers and duties. (a)(10)** – This section is amended to remove the word “shall” and replace it with “may” regarding the commission’s requirement to provide support to the Department of Law in matters pending before Federal jurisdictions. This section, as currently worded, may prohibit the RCA from taking any contrary positions to the AG.

**Section 12. Sec. AS 42.06.220. Annual report.** This section modifies the annual report requirements under the pipeline act similar to those in described above.

**Section 13. AS 42.06.286 Pipeline carrier regulatory cost charge. (a), (c), and (d)** – These amendments are similar to those made under AS 42.05.254 described above.

**Section 14. AS 44.66.010(a)(3)** – Amends the RCA’s reauthorization date to June 30, 2013 (six years) which was passed as part of CR&A’s CS.

# Alaska State Legislature

SENATOR  
**GENE THERRIAULT**

Mailing Address:  
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Fairbanks, Alaska 99701  
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Fax: (907) 488-4271



Senate

While in session  
State Capitol  
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(907) 465-4797  
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SENATE DISTRICT F

**TO:** Senator Lesil McGuire, Chair  
Senate State Affairs Committee

**FROM:** Senator Gene Therriault  
Senate Minority Leader

**DATE:** March 7, 2007

**RE:** SB 16 – RCA Sunset Extension Hearing Request

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I respectfully request Senate Bill 16 be scheduled for hearing before the Senate State Affairs Committee.

The Committee Substitute for Senate Bill 16(CRA) would extend the Regulatory Commission of Alaska (RCA) to June 30, 2013. The Division of Legislative Audit conducted its statutory audit of the RCA and released that report on December 15, 2006. The Audit Division found that the RCA is meeting a valid public policy need and is serving Alaskans and therefore should be extended.

The previous committee amended the bill to add a requirement that the Audit Division conduct a biennial audit on information contained in the Commission's annual reports for purposes of compliance with timeline extension provisions and other performance measures.

Thank you for your consideration.



**25<sup>th</sup> ALASKA STATE LEGISLATURE**  
**SENATE REPUBLICAN CAUCUS**

SENATOR GENE THERRIALT, MINORITY LEADER  
STATE CAPITOL, ROOM 427, 465-4797 (FAX 465-3884)

[www.aksenateminority.com](http://www.aksenateminority.com)

SENATOR CON BUNDE  
SENATOR FRED DYSON  
SENATOR TOM WAGONER  
SENATOR GARY WILKEN

**Fact Sheet for: Senate Bill 16**

**Contact: Heather Brakes, 465-4797**

**Bill Version: SB 16**

**Sponsor: Senator Gene Therriault**

**Short Title: EXTEND REGULATORY COMMISSION OF ALASKA**

**Summary:**

- Extends the termination date of the Regulatory Commission of Alaska to June 30, 2015.

**Benefits:**

- Extending the Commission protects consumer interests and promotes economic development.

**Background:**

- The Regulatory Commission of Alaska is located within the Alaska Department of Commerce, Community & Economic Development. The RCA regulates public utilities by certifying qualified providers of public utility and pipeline services, and ensuring that they provide safe and adequate services and facilities at just and reasonable rates, terms, and conditions. State law requires the Division of Legislative Audit to assess the public need for a given board, commission, agency or program subject to the sunset review process according to criteria set out in AS 44.66.050. In Audit Control Number 08-20048-06, the division concludes that the RCA meets a valid public policy need, and recommends that the Commission be extended.

SKILLED

RESPONSIBLE

CONSERVATIVE

# FISCAL NOTE

**STATE OF ALASKA**  
**2007 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
Bill Version: CSSB 16(CRA)  
(S) Publish Date: 3/2/07

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Commerce  
Title: Extend Regulatory RDU: Regulatory Commission of Alaska (399)  
Commission of Alaska Component: Regulatory Commission of Alaska  
Sponsor: Theriault  
Requester: Senate Community & Regional Affairs Component No.: 2417

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services		5,364.6	5,364.6	5,364.6	5,364.6	5,364.6
Travel		55.0	55.0	55.0	55.0	55.0
Contractual		1,530.9	1,530.9	1,530.9	1,530.9	1,530.9
Supplies		56.9	56.9	56.9	56.9	56.9
Equipment		12.6	12.6	12.6	12.6	12.6
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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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		7,020.0	7,020.0	7,020.0	7,020.0	7,020.0
<b>TOTAL</b>	<b>0.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>	<b>7,020.0</b>

Estimate of any current year (FY2007) cost: 6,495.3

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

**POSITIONS**

Full-time	57	57	57	57	57	57
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation extends the Regulatory Commission of Alaska (RCA) to June 30, 2015. In accordance with AS 44.66.010, funding is extended one year following the termination date allowing the commission to conclude its affairs.

The RCA 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.

Prepared by: Kate Giard, Chairman Phone 907-276-6222  
Division: Regulatory Commission of Alaska Date/Time 2/14/07 11:00 AM  
Approved by: Emil Notti, Commissioner Date 2/14/2007  
Agency: Commerce, Community, and Economic Development

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300  
Juneau, AK 98111-3300  
(907) 465-3830  
FAX (907) 465-2347  
legaudit@legis.state.ak.us

November 8, 2006

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 and Title 44 of the Alaska Statutes (sunset legislation), the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY, AND  
ECONOMIC DEVELOPMENT  
REGULATORY COMMISSION OF ALASKA  
SUNSET REVIEW

October 20, 2006

Audit Control Number

08-20048-06

This audit was conducted as required by AS 44.66.050 and under the authority of AS 24.20.271(1). Alaska Statute 44.66.050(c) lists criteria to be used to assess the demonstrated public need for a given board, commission, agency, or program subject to the sunset review process. Currently, under AS 44.66.010(a)(3), the Regulatory Commission of Alaska is scheduled to terminate on June 30, 2007.

In our opinion, the termination date for this commission should be extended. We recommend the legislature extend the termination date to June 30, 2015.

The audit was conducted in accordance with generally accepted government audit standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in cursive script that reads "Pat Davidson".

Pat Davidson, CPA  
Legislative Auditor

# TABLE OF CONTENTS

	<u>Page</u>
Objectives, Scope, and Methodology .....	1
Organization and Function .....	5
Background Information.....	9
Report Conclusions.....	13
Findings and Recommendations.....	15
Analysis of Public Need .....	21
Agency Response	
Regulatory Commission of Alaska .....	29

## OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Regulatory Commission of Alaska (RCA or commission). Under AS 44.66.050(a), the legislative committees of reference are to consider this report during the legislative oversight process to determine whether the commission's termination date should be extended. Currently, AS 44.66.010(a)(3) requires the commission to terminate on June 30, 2007. If the legislature takes no action to extend the termination date, the commission will have one year from that date to conclude its operations.

### Objectives

The following are the three central, interrelated objectives of our report:

1. To determine if the termination date of the commission should be extended.
2. To determine if the commission is operating in the public's interest.
3. To determine if the commission has exercised appropriate oversight of certificated utilities and pipeline companies.

The assessment of operations and performance of the commission was based on the 11 factors set out at AS 44.66.050. Under the State's "sunset" law, these factors are to be used in assessing if an agency, subject to the law, has demonstrated a valid public policy need for continuing operations.

### Scope and Methodology

The major areas of our review included:

- assessment of management controls,
- compliance with statutory deadlines for certain formal proceedings,
- compliance with statutory notice periods for tariff filings,
- compliance with public notice requirements,
- evaluation of the regulation adoption process, and
- review of the consumer protection activities.

Our audit reviewed operations and activities of the commission from July 2002 through June 2006 (FY 03 – FY 06).

Our review of the major areas was supplemented with information obtained from individuals employed by, or representing, the regulated utilities and pipeline companies. Two surveys were conducted. The surveys consisted of various questions soliciting the opinions of these groups about the operations and decision making processes of RCA.

One survey was sent to a sample of individuals who were involved in docket<sup>1</sup> proceedings. Topics in this survey included: statutory timelines, communication of the statutory deadline for docket proceedings, timeliness of dockets without statutory timelines, the hearing process, statutes, regulations, RCA's overall operations, and usability of the commission's website. A sample of 77 individuals<sup>2</sup> was selected from the service list attached to each docket's final or last order. Twenty-six of the 77 (34%) individuals surveyed responded.

Another survey was sent to a sample of individuals from the regulated entities that had interactions with RCA's consumer protection section. Topics in this survey included: RCA's informal complaint process, regulations, RCA's overall operations, and the usefulness of the commission's website. A non-probability sample of 29 individuals was selected from a list<sup>3</sup> of contacts provided by the consumer protection section staff. Fifteen of the 29 (52%) individuals surveyed responded.

We evaluated dockets and tariff filings to determine that: 1) dockets were processed within the applicable, if any, statutory timelines or within tariff statutory notice periods; 2) certain data maintained in RCA's database systems is reliable; and 3) RCA provides adequate public notice of commission meetings, docket proceedings, and tariff filings.

Our evaluation covered dockets opened on or after July 1, 2002 through May 10, 2006. We excluded pipeline dockets since those proceedings have no statutory timelines. The total number of dockets in our population was 465. We tested a randomly-selected statistical sample of 35 dockets. We also reviewed all final decisions of rule-making<sup>4</sup> dockets closed during the period to ensure the closure was within statutory timelines.

In addition, RCA had 367 pending dockets at the end of FY 02. During our audit period, there were 796 dockets closed, including those pending at the end of June 2002. Of the 796, 211 were dockets on utility matters that had an associated statutory timeline.<sup>5</sup> We sampled 25 of these utility dockets to confirm closures were based on decisions on substantive issues.

Our scope for tariff filings included those filed on or after July 1, 2002 through June 8, 2006. We excluded tariff filings that were withdrawn or suspended and those that were related to

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<sup>1</sup> The term docket is used by RCA to refer to a formal proceeding before the commission.

<sup>2</sup> Forty-nine individuals were involved in utility dockets, 20 were involved in pipeline dockets, 7 were involved in both utility and pipeline dockets, and the remaining one was the public advocate in the Department of Law.

<sup>3</sup> Although, the list did not consist of all the utilities and pipelines regulated by RCA, they included companies that the consumer protection section had regular contact with during the audit period.

<sup>4</sup> A rule-making docket is a matter in which RCA considers certain additions, deletions, or amendments to its regulations.

<sup>5</sup> We excluded dockets already reviewed in our statistical sample.

quarterly or annual adjustments.<sup>6</sup> The total number of tariff filings in our population was 915. We tested a non-probability sample of 35 tariff filings.

During our field work, we also:

- Assessed the adequacy of management controls over the docket and tariff filing processes
- Reviewed RCA's mandated quarterly reports to the legislature
- Evaluated the reliability of certain data maintained in the commission's databases
- Analyzed consumer complaints against utilities filed with the commission
- Reviewed applicable statutes and regulations
- Contacted the state ombudsman, the office of victims' rights, the Alaska State Human Rights Commission, the U.S. Equal Employment Opportunity Commission, the Alaska Labor Relations Agency, and the equal employment opportunity staff within the Department of Administration
- Reviewed proposed legislation and related testimony
- Interviewed commissioners, RCA staff, and management of regulated entities
- Researched other states' regulatory commission websites, statutes, and regulations
- Reviewed RCA's annual reports and operational performance measures
- Analyzed the expenditures of the commission and appropriations of the regulatory cost charges paid by the regulated entities
- Read RCA's transcripts of certain public meetings and hearings as well as related commission decisions

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<sup>6</sup> These tariff filings included adjustments due to power cost equalization allocations and RCA's regulatory rate charges.

(Intentionally left blank)

## ORGANIZATION AND FUNCTION

The Regulatory Commission of Alaska (RCA or commission) was created July 1, 1999, upon reorganization of the Alaska Public Utilities Commission by Chapter 25, SLA 1999. Under state law, RCA is responsible for ensuring safe, adequate, and fair public utility and pipeline services. This is to be done by allowing regulated entities to charge users rates and provide service in a manner consistent with the interests of both the public and regulated entity. The commission has the authority to adopt regulations and to hold formal, quasi-judicial hearings to accomplish these purposes.

RCA regulates pipeline, telephone, electric, natural gas, water, sewer, refuse, cable TV, and steam services. All pipelines, and all other public utilities with ten or more customers, are regulated by the certification process. A public utility or pipeline company must obtain a certificate of public convenience and necessity which describes the authorized service area and scope of operations. A certificate is issued upon the commission formally finding the applicant to be fit, willing, and able to provide the service requested.

Besides the certification process, RCA also may economically regulate the rates, classifications, rules, regulations, practices, services, and facilities of public utilities and pipeline companies covered by statute. Utilities are subject to the RCA certification process but many are exempt from more extensive economic regulation. As of August 2006, there were 630 active certificated entities. Of these 149 were economically regulated. Exhibit 1 is a summary, by service type, of the economically regulated entities.

The commission consists of five commissioners appointed by the governor and confirmed by the legislature. The commissioners must either be a member of the Alaska Bar Association or have a degree in engineering, finance, economics, accounting, business administration, or public administration from an accredited college or university. The commissioners serve six-year terms. (See Exhibit 2 for the current commissioners and their terms.)

### **Exhibit 1**

#### **RCA Economically Regulated Certificates by Service Type**

Telecommunications	63
Electric	32
Pipeline	19
Refuse	13
Water	11
Gas	6
Sewer	3
Cable TV	2

### **Exhibit 2**

#### **Regulatory Commission of Alaska Members**

Kate Giard, Chair  
Term Expires March 2007

Anthony Price  
Term Expires June 2010

Mark Johnson  
Term Expires March 2009

Dave Harbour  
Term Expires March 2008

Jan Wilson  
Term Expires March 2012

The staff of RCA is organized around six major functions: administration, finance, tariff, engineering, common carriers, and consumer protection. RCA had 60 funded positions<sup>7</sup> in its \$6 million FY 06 operating budget. A brief description of the services provided by each function is as follows.

- **Administration**: This function is responsible for fiscal and personnel administration, budget preparation, and records management - including the case management system. The commission chair is responsible for this function and is aided by an administrative manager, a commission section manager, an advisory section manager, documents processing and accounting personnel, and other clerical support staff.
- **Finance**: This function examines, analyzes, and evaluates financial statements submitted for rate cases. The finance staff audits financial records of utilities and pipeline companies and examines historical operating year data and pro forma adjustments. These analyses are presented at proceedings before the commission.
- **Tariff**: This function examines, analyzes, and investigates tariff filings and presents recommendations to the commission at biweekly tariff action meetings. Administrative duties include organizing those meetings, ensuring that public notice requirements on tariff filings are met, and maintaining current master tariffs for all utilities.
- **Engineering**: This function is responsible for certification proceedings and the investigation of utility and pipeline company procedures and practices affecting service quality. The engineering staff also reviews legal descriptions for service areas, plans for plant expansion, and plant-in-service and depreciation schedules. These analyses are presented in proceedings before the commission.
- **Common Carriers**: This function develops, recommends, and administers policies and programs with respect to the regulation of rates, services, accounting, and facilities of communications common carriers within the State involving the use of wire, cables, radio, and space satellites.
- **Consumer Protection**: This function investigates and resolves informal consumer complaints, and is responsible for public affairs and media relations as well as responding to information requests.

As of July 2003, the responsibility of public advocacy for regulatory affairs was transferred to the Department of Law. The regulatory affairs and public advocacy section advocates on behalf of the public in utility matters that come before RCA. Regulatory cost charges from the regulated entities continue to fund the public advocate function.

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<sup>7</sup> This total does not include the assistant attorney general that the Department of Law furnishes to RCA through a reimbursable services agreement.

Exhibit 3 below, summarizes RCA's expenditures for the past four fiscal years. The funding source for almost all of these expenditures was the regulatory cost charges paid by the regulated entities. Beginning with FY 04, the expenditures for the public advocacy function, relocated to the Department of Law, are excluded from the amounts shown.<sup>8</sup>

<b>Exhibit 3</b>				
<b>Regulatory Commission of Alaska</b>				
<b>Summary of Expenditures</b>				
<b>FY 03 - FY 06</b>				
<b>Expenditures</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>
Personal Services	\$3,896,539	\$4,005,622	\$3,764,473	\$3,582,676
Travel	53,081	55,359	50,747	89,370
Contractual	1,756,621	2,001,549	1,377,995	1,657,384
Supplies	50,501	54,555	81,610	129,847
Equipment	134,579	85,536	-0-	74,764
<b>Total</b>	<b>\$5,891,321</b>	<b>\$6,202,621</b>	<b>\$5,274,825</b>	<b>\$5,534,041</b>

Source: RCA's FY 03 annual report and the State's accounting system.

<sup>8</sup> The regulatory affairs and public advocacy section within the Department of Law received \$1 million in FY 04 from RCA and then was appropriated, from fees paid by regulated entities, \$1.3 million and \$1.4 million, respectively in FY 05 and FY 06.

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## BACKGROUND INFORMATION

The Regulatory Commission of Alaska (RCA or commission) is currently working on two significant projects: the 2005 improvement initiative project and the development of a regulatory program for small hydropower projects within the State. The following is a brief summary of each of these projects.

### 2005 Improvement Initiative Project

In March 2005, the commission began, what it termed, the 2005 improvement initiative project. The three primary goals of the project were to improve RCA's transparency, accountability, and operational efficiency. In order to achieve these goals, the commission identified four primary objectives:

1. To improve the regulatory environment for pipeline companies by partnering with them to jointly identify areas where RCA processes could be improved.
2. To improve the regulatory environment for utilities by meeting with key regulated industries to understand their view of RCA's oversight processes. Part of this effort would be to involve the utilities in setting priorities for regulation and statute changes, identifying the needs for a case management information system, and modifying RCA business practices.
3. To improve the internal operating and management structure of the commission.
4. To implement an integrated case management system with a web portal to allow access by the regulated entities.

RCA's actions under the first three objectives are discussed throughout the Findings and Recommendation and Analysis of Public Needs sections. The following discussion relates to the progress in the implementation of a case management information system.

### *Internet Integrated Case Management System*

In late 2004, RCA began a series of meetings and workshops asking the public and the regulated entities what information technology improvements they believed were needed for the commission. A working group was formed of individuals from the regulated entities to better define RCA's system needs.

As a result of this process, in 2005 RCA began several information technology projects. In 2006 the commission issued a request for proposals to obtain an integrated case management system. The star system, proprietary software of an information technology company known as ACO, was selected. In response to inquiries from the various entities regulated by RCA,

the commission established a user committee of volunteers. The user committee members also solicited feedback from other utilities, pipeline companies, and organizations that interact with RCA.

The user committee's objective was to develop the conceptual framework that would allow each regulated entity access to a web-based portal, secured by a password, through which all business interactions with RCA could be transacted electronically. The budget for the new case management system and the web-based portal is approximately \$2.25 million. It is anticipated that these projects will be completed by the end of 2006.

#### Regulation of smaller scale hydropower projects

RCA is in the process of establishing a regulatory program for small hydropower projects that are currently regulated by the Federal Energy Regulatory Commission (FERC). In 1999, federal legislation was adopted that provided for the phasing out of FERC's role in Alaska involved with licensing and regulating hydropower projects of less than 5,000 kilowatts.

The main reason for transfer of such authority from FERC to state regulation was that *"Alaska presents special circumstances that favor local control over projects."*<sup>9</sup> In the view of congress, state regulation would be timelier and less costly for both the current operators of the small hydropower projects and entities seeking initial approval for project construction. Transfer of this authority was contingent on the State developing a regulatory process that met certain requirements and was approved by FERC.

In 2002, the state legislature adopted legislation<sup>10</sup> giving RCA authority to develop regulations as part of establishing a regulatory program for small hydropower projects within the State.<sup>11</sup> RCA opened a rule-making docket in December 2003 to begin the process of developing a regulatory program. A stakeholder advisory committee was formed and numerous committee meetings, workshops, and public meetings were held.

Proposed regulations were issued for public comment in April 2005. Although rule-making dockets are to be closed by a final order within 24 months, RCA exercised its discretion to extend the deadline by 90 days. In March 2006 the commission was still not prepared to adopt the regulations. At the commission's public meeting, RCA's assigned assistant attorney general advised that

*... [state law]... says [the commission] shall issue a final order in a rule-making proceeding... not later than 24 months after a petition of the regulation has been filed. ...my advice to [the commission is] that you have to follow that provision and*

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<sup>9</sup> Calendar No. 65, 106<sup>th</sup> Congress, Committee on Energy and Natural Resources report to the Senate on S. 422.

<sup>10</sup> Chapter 107, Session Law 2002

<sup>11</sup> Not included for state regulation are certain projects licensed or exempted under federal law before November 9, 2000.

*issue a final order.... That is not obligating you to adopt the regulations, it's simply issuing a final order that would terminate the proceedings.*

Accordingly, at the end of March 2006, RCA ordered the rule-making docket closed. In the final order the commission stated a new rule-making docket would be opened and the entire record of the closed docket would be incorporated into the new docket. As of the date of this report a new docket has not been opened. Due to the size and complexity of this regulation project, RCA is contracting for an attorney to assist in revising the proposed regulations.

Once the regulations have been edited, and a new docket opened, RCA intends to hold public meetings on the revised proposed regulations. The regulations would then be further revised as necessary, adopted, and submitted to the governor for eventual transmittal to FERC. The federal agency then has a year for its review. Only after FERC has approved RCA's regulatory program can the State take over regulatory responsibilities. The RCA chair anticipates this process will take approximately two more years from the date of the order for the additional public hearings.

In FY 07, RCA received a \$150,000 appropriation from the State's general fund to continue the process of developing the small hydropower regulatory program. The costs associated with the project prior to FY 07, approximately \$207,000 have been funded through RCA's regulatory cost charges from the current regulated entities.

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## **REPORT CONCLUSIONS**

In developing our conclusion whether the termination date of the Regulatory Commission of Alaska (RCA or commission) should be extended, we evaluated commission operations using the 11 factors set out at AS 44.66.050. Under the State's "sunset" law, these factors are to be used in assessing if an agency, subject to the law, has demonstrated a valid public policy need for continuing operations. As discussed in the Findings and Recommendation section, we identified areas where regulation changes could improve RCA's efficiency and accountability. Given the quasi-judicial nature of how RCA operates, we recognize making these proposed regulation changes may be time consuming and attract extensive scrutiny and challenge by various parties that interact with RCA.

In our opinion RCA meets a valid public policy need and is serving Alaskans by: (1) assessing the capabilities of utility and pipeline companies to safely and capably serve the public; (2) evaluating tariffs and charges made by regulated entities; (3) verifying the pass-through charges to consumers from electric and natural gas utilities; (4) adjudicating disputes between ratepayers and regulated entities; (5) providing consumer protection services; and, (6) performing financial reviews of utilities for the State's power cost equalization program. RCA has demonstrated the commission serves a public need. Under AS 44.66.010(a)(3), RCA is scheduled to terminate June 30, 2007. We recommend the legislature adopt legislation extending RCA's termination date to June 30, 2015.

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## FINDINGS AND RECOMMENDATION

In our previous sunset audit,<sup>12</sup> we made three recommendations. The first recommendation was for the Regulatory Commission of Alaska (RCA or commission) to propose legislation to clarify statutes imposing statutory timelines on certain proceedings. In 2002 legislation extending the termination date for RCA, the legislature adopted statutes setting specified timelines for the commission to follow in making certain kinds of decisions. The statutory timelines apply to about half of the regulatory decisions made by the commission. In Recommendation No. 1, of this review, we recommend the commission consider adopting further timelines for other actions not covered in statute.

A second recommendation stated RCA's chair should ensure that publication of notices of formal proceedings is monitored. While there are still some operational deficiencies with ensuring all discretionary public notices have appropriately been made, RCA consistently meets basic public notice requirements related to its decision making process. The concerns related to this prior audit recommendation have substantially been addressed.

The third prior recommendation suggested RCA either require smaller water and sewer utilities to be certificated or establish a meaningful exemption system by regulation. RCA adopted the necessary regulations in February 2004.<sup>13</sup>

The following recommendation is based on the current sunset review.

### Recommendation No. 1

RCA should proceed with the development of regulations that would enhance the transparency, accountability, and efficiency of the commission's decision making process.

In late 2004, RCA held public meetings inviting comments on possible regulation changes that would improve the way in which the commission operated. In the early part of 2005, based on comments from staff in addition to those received from regulated utilities and pipeline companies at the 2004 meetings, RCA adopted a regulation projects plan. This work plan is reviewed on a regular basis. Many of the projects would establish more accountability standards for RCA operations.

In the course of our review, we identified three areas where adoption of regulations would promote improved efficiency, accountability, and transparency of RCA's decisions. All areas

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<sup>12</sup> Department of Community and Economic Development, Regulatory Commission of Alaska, Sunset Review, November 26, 2002, Audit Control No. 08-20021-03.

<sup>13</sup> These regulations became effective June 19, 2004.

## Exhibit 4

### Statutory Timelines

In a special session in June 2002, legislative committees conducted extensive oversight hearings that focused on RCA's workload and the regulated utilities' complaints of slow processing of their requests. The legislature responded to these complaints by enacting statutory timelines for RCA decisions in several categories of utility regulatory matters. The addition of AS 42.05.175 provided, in part, the following:

- (a) *The commission shall issue a final order not later than **six months** after a **complete application** is filed for an application...*
- (b) *... the commission shall issue a final order not later than **nine months** after a **complete tariff filing** is made for a tariff filing that does not change the utility's revenue requirement or rate design.*
- (c) *... the commission shall issue a final order not later than **15 months** after a **complete tariff filing** is made for a tariff filing that changes the utility's revenue requirement or rate design.*
- (d) *The commission shall issue a final order not later than **12 months** after a **complete formal complaint** is filed against a utility or, when the commission initiates a formal investigation of a utility without the filing of a **complete formal complaint**, not later than **12 months** after the order initiating the formal investigation is issued.*
- (e) *The commission shall issue a final order in a rule-making proceeding not later than **24 months** after a **complete petition** for adoption, amendment, or repeal of a regulation...*
- (f) *The commission may extend a timeline required under (a) - (e)... if all parties of record consent to the extension or if, for one time only, before the timeline expires, the*
  - (1) *commission reasonably finds that good cause exists to extend...*
  - (2) *commission issues a written order extending the timeline and setting out its finding regarding good cause; and*
  - (3) *extension of time is 90 days or less.*
- (g) *The commission shall file quarterly reports with the Legislative Budget and Audit Committee identifying all extensions ordered under (f)(2)...*  
**[emphasis added]**

we identified for improvement were included in the commission's 2005 regulation projects plan – although as of the date of this report, the commission has not started the process of developing the necessary regulations. Our identified improvement areas include: (1) establishment of additional timelines; (2) adoption of rules related to discovery; and (3) defining when a record is considered complete and the given timeline starts. Further discussion of these issues is as follows:

1. Establishing timelines for matters not covered by statute. In 2002, legislation was passed imposing statutory timelines on certain matters that come before the commission. (Refer to Exhibit 4.) However, these timelines apply to about half of the matters decided by RCA, leaving many filings and applications submitted to the commission without any formal, widely recognized timelines. This ongoing concern about timeliness was also reflected in almost half of survey responses received from representatives of regulated entities.

Our review of RCA's decisions indicated the commission is consistently meeting the timelines set out in statute. This demonstrates RCA is committed to being as timely as possible. We urge the commission to take the additional step of putting timelines, for the actions not covered by statute, into regulation.

2. Establishing standards for certain aspects of discovery. Part of the prehearing process, during which each party requests relevant information and documents from opposing parties, is termed discovery. Each side is attempting to discover pertinent facts. Generally, discovery devices include depositions,<sup>14</sup> requests for admissions,<sup>15</sup> interrogatories,<sup>16</sup> document production requests, and requests for inspection. Excessive discovery requests during the course of a proceeding can be used as a tactic to drive up the legal costs for the opposing party. Additionally, extended discovery may contribute to longer proceedings, which runs counter to the central intent behind statutory timelines adopted in recent years.

In past years, the merits and possibility of placing some limits on discovery has been raised in public meetings between RCA commissioners, utility managers, and attorneys that specialize in regulation law. In comments received from respondents to our survey, the need for discovery guidelines and the use of what is termed "informal" discovery were listed as current suggestions for improvement. Under current regulations RCA does have the authority, on a case-by-case basis, to adopt procedural rules limiting the nature and extent of discovery.<sup>17</sup>

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<sup>14</sup>Depositions are proceedings in which a witness or party is asked to answer questions under oath before a court reporter.

<sup>15</sup>A request for admission is a request to a party that they admit certain facts. One party sends the other a request for admission so that issues, the parties agree upon, can be resolved and not have to be proven at hearing.

<sup>16</sup>Interrogatories are written questions sent by one party to the other for the latter to answer in writing under oath.

<sup>17</sup> See 3 AAC 48.091(l). Rulings that specifically limit certain aspects of discovery are typically set out in an order during the early part of a proceeding. RCA occasionally issues orders limiting discovery, typically doing so only if one of the parties make a request to do so, and can make a persuasive argument.

State court rules limit the number of interrogatories in civil matters to 30. Federal civil procedure rules limit interrogatories to 25. Many regulatory authorities in other states have adopted rules related to discovery. In such situations where limits are imposed, provisions are typically made to allow parties to seek additional discovery. To do so, however, a party wanting more discovery must convince the adjudicative authority (judge, commissioner, hearing officer, etc.) to suspend or expand the established limits. If similar rules were in place at RCA, a party making an extensive discovery request would first have to justify the need for a larger request.<sup>18</sup>

There is a need to balance due process against efficiency. There may be times when exceptions to an established standard may have to be made. However, there is merit in RCA's consideration of limiting some aspects of the discovery process in the interest of promoting more efficient proceedings. Adoption of such rules by RCA would shift the burden of justifying broad discovery requests to the requesting party.

3. Clarifying terms used in statute that relate to established timelines for certain formal proceedings. State law, in setting timelines for various RCA proceedings, refers to various matters as being "complete" before the related, specified time period begins. Terms such as "*complete application*," or "*complete tariff filing*" serve as reference points that trigger the deadline for a given decision. (See Exhibit 4.) The statute states that a request from the regulated entity is complete when all requirements are complied with under RCA's statutes, regulations, and adopted forms.

However, the determination of completeness is made informally by the advisory section staff rather than by a written decision of the commission. A more formal process performed by the commissioners or administrative law judges, rather than the current delegation to staff, would provide greater clarity to the regulated entities as to the completeness of their requests.

Over a quarter of the respondents to our survey said they were not informed by RCA as to what the deadline date was for their particular matter of interest. Although the date a matter is first opened may be clear, it is often some time before the filing is considered complete. Determining when the initial filing is complete involves subjective judgment on the part of RCA staff. In evaluating RCA's compliance with the timeline provisions, we occasionally saw where the date—when a filing was considered complete—was sometimes changed upon further review of the file.

RCA's determination of the trigger date of the statutory timeline, the date of completeness, is a point on appeal in several cases in front of the Superior Court initiated during the audit period. Legal filings and responses in the RCA hearing process and

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<sup>18</sup> A current proceeding provides an example of where discovery appears to be unreasonable. A regulated utility received five requests from an opposing party that involved developing responses to between 1,800 and 2,200 interrogatories (the count varying depending on how one chose to count various question sub-parts).

appeals of RCA decisions may be limited by adoption of such regulations. Clarification of what determines completeness, and the process to document and communicate the completeness date, could limit this as a point of contention.

If RCA adopted regulations to define when an initial application, filing, complaint, and petition are complete such action would enhance the transparency and accountability of the commission's deliberative process. Alternatively, the commission could develop the practice of issuing an order to memorialize the date of when the initial record is considered complete. Such an order date could be integrated into the commission's interactive internet web portal and all parties to a given matter would be on notice as to the deadline date for a given matter's final decisional order.

The commission has been very proactive in soliciting feedback from the public, and the utility and pipeline companies, which are involved with RCA on an ongoing basis. While this process has identified key areas where RCA could improve its operations, the priority for implementation has to date been given to other matters. For the three issues discussed—directly related to promoting efficiency, accountability, and transparency of RCA's decision making—we recommend that the commission take the next step and schedule the necessary hearing dockets.

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## **A ANALYSIS OF PUBLIC NEED D**

The following analyses of commission activities relate to the public need factors defined in AS 44.66.050(c). These analyses are not intended to be comprehensive, but address those areas we were able to cover within the scope of our review.

***Determine the extent to which the board, commission, or program has operated in the public interest.***

The Regulatory Commission of Alaska (RCA or commission) operates in the public interest in a wide variety of ways. The commission identifies its core services as including:

1. certification and economic regulation of utilities and pipeline companies;
2. assisting in the administration of the State's power cost equalization program;
3. review of tariffs;
4. resolution of disputes among service providers in various regulated industries;
5. consumer protection;
6. refinement of the State's utility regulatory framework; and,
7. serving as a technical resource for legislative and administrative decision makers.

In carrying out its responsibilities, RCA acts much of the time in a quasi-judicial manner. Accordingly, decisions must be supported by findings of fact, and the findings of fact must be based solely upon the evidence as it appears in the record of a given proceeding. RCA continues to be very concerned about affording all parties to a given decision appropriate due process, while at the same time being responsive to concerns about the timeliness of its decision making process.

RCA's efforts at resolving consumer complaints with regulated utilities also serve the public interest. The commission resolves most informal complaints within 30 days. Most of the regulated entities responding to our survey reported they were satisfied with the complaint resolution process.

RCA has responded well to legislative concerns about timeliness. In 2002, after extensive oversight hearings, the legislature put into statute specific time periods for RCA to follow in making various decisions. We reviewed 35 tariff filings and 35 formal proceedings. In no instance did RCA take longer than permitted, by statute, to make a given decision.

As discussed in Background Information, RCA did issue a final order to close a rule-making docket prior to completing the development of regulations related to hydropower projects.

While such action allowed the commission to technically comply with the established timeline, the central intent of the statute was circumvented. The commission continues to work on developing the regulations and does intend to reopen a formal docket in the future to adopt the necessary regulations.

***Determine the extent to which the operation of the board, commission, or agency program has been impeded or enhanced by existing statutes, procedures, and practices that it has adopted, and any other matter, including budgetary, resource, and personnel matters.***

RCA's system, used to monitor progress of various hearing dockets and ensure impending deadlines are met, is adequate in promoting the issuance of timely decisions.<sup>19</sup> Such a system serves to prevent the triggering of default actions as provided for under the statutes for late decisions.

There is a lack of clarity about when timelines for certain decisions, as provided for in statute, actually begin. The time period for a decision begins when the initial record related to a proceeding is complete. However, there is no formally established definition in policy or regulation about when the initial record is complete. Determination of completeness is critical to designating when a given time period starts. Additionally, from a survey of selected parties involved with RCA proceedings, over a quarter of the respondents reported they had not been informed of any established deadline date related to their matter that fell under the statutory timelines.

Almost half of the survey respondents involved with proceedings not covered by a statutory deadline believed the length of time it took to resolve their matters was unreasonable. For survey respondents involved in pipeline proceedings, which are not covered by any statutory deadline, 60 percent believed the length of time for such proceedings was unreasonable. As discussed in Recommendation No. 1, we encourage the commission to develop regulations that establish timelines for matters not covered by state law.

***Determine the extent to which the board, commission, or agency has recommended statutory changes that are generally of benefit to the public interest.***

RCA commissioners provided testimony regarding the impact that 2003 legislation would have on commission operations. The legislation clarified state law related to the regulation of pipelines. The legislation expanded RCA's authority to regulate rates charged to customers for natural gas transported through any pipeline in the State, where previously such authority had been limited to a designated natural gas pipeline.

<sup>19</sup> There are three components of RCA's system. First, each matter filed with RCA is assigned to a responsible "docket manager" who monitors subordinates' progress in preparing the matter for decision. Second, the RCA commission section manager maintains a database to monitor workflow and to continually advise the commissioners and staff as to the needed allocation of resources. Thirdly, weekly meetings with the RCA chair, administrative law judges, and staff are held to review the status of all open dockets.

According to testimony, RCA worked with the Department of Law to assist in developing 2004 legislation that provided for assessments to fund the public-advocacy function related to utility and pipeline regulation. This function was transferred from RCA to the Department of Law by Executive Order #111. The legislation clarified RCA's authority under the Executive Order and provided for independence between the commission and the public-advocate function.

RCA testified about the impact proposed 2005 legislation would have on commission operations. The legislation would have permitted privately owned utilities to be eligible for certain state water and sewer infrastructure grants. Grant eligibility under the legislation would have been contingent on the recipient utilities remaining under RCA's regulatory oversight. The legislation was adopted by the House but not the Senate.

RCA testified in hearings related to proposed 2005 legislation exempting certain water and sewer utilities from regulation. More specifically, the proposed legislation exempted such utilities owned by local governments, if the utility did not compete with a regulated utility. RCA's chair testified the commission could support the legislation if certain safeguards were in place to protect the affected consumers of the utility. Under the final draft of the legislation, RCA's chair would have been charged with reviewing the existence and appropriateness of such safeguards. If the chair determined the measures were adequate, the commission would notify the administration that the utility was exempt from RCA's regulation. The legislation was adopted by the House but not the Senate.

*Determine the extent to which the board, commission, or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service that it has provided.*

RCA affords the public the opportunity to speak at publicly noticed meetings of the commission. The quasi-judicial manner in which RCA operates provides extensive opportunity for all interested and affected parties to informally and formally respond to proposed regulations and decisions.

In addition, as part of its operating mission, RCA has an active consumer protection function which provides utility customers an avenue to seek resolution of complaints. RCA generally tries to resolve disputes between customers and utilities informally, before opening a formal complaint.

<b>Exhibit 5</b>		
<b>Consumer Complaints Filed with RCA during FY 06</b>		
	<u>Number Filed</u>	<u>Percentage Of Total Complaints</u>
Telecommunications	247	60%
Electric	91	22%
Water / Sewer	34	8%
Natural Gas	20	5%
Refuse Collection	18	4%
Cable Television	<u>5</u>	<u>1%</u>
Totals	<u>415</u>	<u>100%</u>

As reflected in Exhibit 5 on the previous page, RCA opened 415 formal complaints in FY 06. RCA resolved almost 90 percent of these complaints within 30 days. Additionally, almost 90 percent of the respondents to our survey, who were involved with the informal complaint resolution process, reported they were satisfied or very satisfied with the process.

RCA uses a variety of methods of notifying the public of formal proceedings. All notices appear on the commission's and the State's website. Notices are also placed in newspapers in the affected regions of the State, posted at the local post office, or included with utility customer billings.

***Determine the extent to which the board, commission, or agency has encouraged public participation in the making of its regulations and decisions.***

RCA's internet website is another tool that is instrumental for communicating with the public. Besides notices of upcoming meetings, formal actions are posted along with the commission's annual reports, discussions of major regulatory issues, and a forum is provided for public comment. The process for filing a consumer complaint is explained and visitors to the website can subscribe to direct e-mail notices related to specific topics of interest.

Survey respondents report that RCA's internet website is easy to use for finding sought after information and the site provides sufficient information regarding dockets and filings. RCA makes a computer terminal available at its office for the public to use for researching commission records. As discussed in Background Information, the commission sought and facilitated the formation of stakeholder groups to assist in the process of developing regulations for smaller hydropower projects. The commission has often used this consensus-building approach in developing regulations and making certain operational decisions.

In December 2004, in response to frustrations voiced by pipeline companies, the commission began holding informal meetings with certificated companies. The meetings developed a listing of suggestions about how the oversight process for pipelines could be improved. In March 2005, a follow-up meeting was held that documented the steps RCA had already taken and the commission's strategy to further address the concerns of the companies. These efforts should be continued to improve the commission's regulation of pipelines.

RCA has used a public process to identify priorities for possible changes in regulations. Beginning in late 2004, commissioners solicited suggestions from staff, the public, and regulated entities about what regulations should be amended or adopted. At a January 2005 public meeting, RCA adopted a list of 11 proposed regulation projects. (See Recommendation No. 1.)

***Determine the efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the office of victims' rights or the office of the ombudsman have been processed and resolved.***

The state ombudsman and the office of victims' rights report receiving no complaints about RCA since our previous sunset review four years ago.

RCA orders and decisions are subject to appeal to the state courts. Since the prior sunset review, 26 of the commission's final orders reflecting docket decisions have been appealed to the State's Superior Court. The Superior Court has remanded three of the decisions back to RCA for further proceedings.

Additionally, the State's Supreme Court has issued decisions related to four RCA docket decisions, resulting in one decision being remanded back to RCA for further proceedings.

***Determine the extent to which a board or commission that regulates entry into an occupation or profession has presented qualified applicants to serve the public.***

As discussed in Organization and Function, "entry" into the provision of public utility services or the operation of a pipeline is regulated through the issuance of a certificate of public convenience and necessity. A public utility or pipeline carrier must obtain from RCA a certificate of public convenience and necessity, which describes the authorized service area and scope of operations. A certificate is issued upon the commission formally finding the applicant to be fit, willing, and able to provide the service requested. The commission generally regulates the rates, services, and practices of these entities.

To that end, RCA employs utility financial analysts and utility engineers to perform the appropriate analyses to make a determination of an applicant's capabilities before granting a certificate. Since 2002, RCA has issued 53 certificates of public convenience and necessity.

***Determine the extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission, or agency to its own activities and the area of activity or interest.***

We found no evidence of RCA's hiring practices or appointments that were contrary to state personnel practices. Since our sunset review during 2002, no complaints have been filed with any of the following: (1) Alaska State Commission on Human Rights in the Office of the Governor; (2) U.S. Equal Employment Opportunity Commission; (3) Alaska Labor Relations Agency with the Department of Labor and Workforce Development; or (4) staff specializing in equal employment opportunity issues in the Division of Personnel within the Department of Administration.

***Determine the extent to which statutory, regulatory, budgeting, or other changes are necessary to enable the agency, board, or commission to better serve the interests of the public and to comply with the factors enumerated in this subsection.***

Half of the respondents, to our survey of parties to formal proceedings, reported they do not believe the existing statutes meet the needs of the regulated entities and protect the public interests. Some of the areas that the respondents believe should be addressed by statutory changes were:

- protection of rural exemptions,
- provision of business incentive to encourage investment in Alaska,
- amendment of the Pipeline Act (AS 42.06) to provide RCA a greater degree of discretion in deciding pipeline-related issues,
- clarification of statutory timelines due to recent RCA decisions,
- establishment of varying degrees of regulation based on complexity and financial impacts,
- shortening of the statutory timeline for decisions in rate proceedings, and
- amendment of AS 42.05.175 to segregate the timeframes between adjudicative proceedings and the time given for the commission to issue its final order at the close of such proceedings.

In addition, the results of our surveys showed that 43 percent of the respondents do not believe the existing regulations meet the needs of the regulated entities and protect the public interests. Some of the areas that the respondents believe should be addressed by regulation changes were:

- deregulation of competitive markets,
- revision of ex parte communication rules,
- clarification of what constitutes a complete application/filing and when RCA must determine and document such completeness,
- addition of discovery limitations, and provision for use of more informal discovery.

As discussed in Background Information, RCA began in March 2006, what it termed, the 2005 improvement initiative project. This project included setting priorities for statute and regulation changes with input from the regulated entities through the public meeting process.

***Determine the extent to which the board, commission, or agency has effectively attained its objectives and purposes and the efficiency with which the board, commission, or agency has operated.***

According to 55 percent of the survey respondents, RCA's overall operations have improved somewhat or significantly during the past four years. Eighty-eight percent (88%) of survey respondents reported the efficiency of the commission's hearing process has stayed the same or improved with 46 percent of the respondents reporting the hearing process over the past four years has become more efficient.

Since FY 03, RCA's operational performance measures have evolved. The current chair of RCA is planning to implement a review of the performance measures and in the process obtain input from the regulated entities. The current performance measurements include:

- issuing all orders within statutory deadlines;
- closing as many cases as the number received each year; and,
- limiting the number of its decisions that are appealed to the Superior Court.

RCA has substantially accomplished the above operational performance measures. See Recommendation No. 1 which identified regulations that could improve RCA's efficiency and effectiveness.

***Determine the extent to which the board, commission, or agency duplicates the activities of another governmental agency or the private sector.***

Under state law,<sup>20</sup> utilities owned and operated by local governments are exempted from regulation. The exemption of utilities owned and operated by governmental units is a common feature of utility regulation statutes across the country. The main reason for such a law is the accountability to the public for utility rates and services thought to be more efficiently accomplished through the local government electoral process. Accordingly, regulating rates and service through a quasi-judicial adjudicatory process such as RCA could be considered duplicative in instances where a local government utility is not exempted.

This issue of possible duplication is reflected in recent efforts of the Municipality of Anchorage (MOA) to have the city's water and sewer utility exempted from RCA oversight. In both the 2003-04 and 2005-06 legislatures, bills have been considered that would amend the statutes related to such exemptions. The central purpose of the proposed legislation was to further specify that water and sewer utilities owned by a local government, such as MOA,

<sup>20</sup> AS 42.05.711 (b) states in part "...public utilities owned and operated by a political subdivision of the state ... are exempt from [RCA oversight]." The statute does allow such utilities to opt for regulation upon the election of the political subdivision's governing body. More significantly though, if such a utility "directly competes with another utility or electric operating entity [subject to RCA regulation]," then the exemption does not apply. In such a situation the political subdivision utility remains subject to RCA regulation.

would be exempt from regulation. The exemption would continue to be contingent on the utility not competing with other regulated water and sewer utilities.<sup>21</sup>

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<sup>21</sup> An earlier attempt in the early 1990s by MOA to be exempted from RCA failed largely because of concern over the city's ownership of both a water and sewer utility along with an electrical utility. Since the commission determined MOA's electrical utility did compete with other regulated utilities, this precluded exemption of the water and sewer utility. The commissioners at the time were concerned joint ownership of an exempted water and sewer utility and nonexempt electrical utility could lead to a shifting of costs between the two entities. It was determined that such possible cost-shifting could be unfair to competing electrical utilities.



DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT

Regulatory Commission of Alaska

*Sarah Palin, Governor*  
*William C. Noll, Commissioner*  
*Kate Giard, Chairman*

December 6, 2006

Ms. Pat Davidson, Legislative Auditor  
Division of Legislative Audit  
PO Box 113300  
Juneau, AK 99811

Dear Ms. Davidson,

The Regulatory Commission of Alaska (RCA) received your Confidential Preliminary Audit Report on November 14, 2006. The Commissioners met in Executive Session on November 22, 2006, for the purposes of discussing the report and have formulated this response.

We believe a governmental agency must never stop trying to improve. It must never rest on its laurels or forget that just beyond the horizon lies a better way to do business, one that's more efficient, promotes greater accountability or enhanced transparency.

After three years of concentrated efforts, the RCA is a better, more efficient and responsive regulatory agency. Yet, our mission is not complete. We must strive to continually deliver an improved and balanced regulatory environment that achieves our statutory mandate of protecting the public interest. We are wholly committed to that goal.

This audit report delivers a straight-forward and comprehensive evaluation of the Agency. We appreciate the work of the legislative auditors who spent four months immersed in Alaska's complex regulatory environment. The resulting management letter includes three recommendations that are germane and timely. We will implement them without question.

We again thank Legislative Audit for a fair and honest evaluation and seek support of the Alaska Legislature for the recommendations contained therein.

Sincerely,

Kate Giard, Chairman

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