

LEG. FINANCE - BILLS 1977 - 1978 662

HB 121 cont., thru CS HB 121 662

FOOTNOTES TO SCHEDULES A & B

1/ Cost of machines for this project:

3 Dictators and service	\$1,900
1 Transcriber and service	600
4 Pocket Dictators	<u>900</u>
	\$3,400

2/ 3 Apartments at \$600/month for 6 months

3/ Unnecessary if state facilities are used; and assuming apartments are furnished

4/ Included in state facilities

* 5/ Install 2 lines, 2 phones \$ 100
Usage (6 mos.) 100
 \$ 200

Long distance: Assume \$1.25/min

x 30 min/day x 180 days = \$6,750

6/ Cost information not available. Used Dex costs.

2 terminals at \$115 x 6 mos.	\$1,400
Transmission same as phone rates	
\$1.25/min x 30 min/day x 180 days	<u>6,700</u>
= 10 pages/day AVR	<u>\$8,100</u>

* 7/ Car Rental - Standard size cars available only.
Avis \$132/mo + (22 cents/mile x 2,000 mile estimate)
includes oil, maintenance, insurance = \$ 1,232

Gasoline Estimate Alaska 81 cents/gal x
15 MPG x 2,000 mi. = 108

Cost of rental car \$ 1,340

Taxis \$12/day x 180 days = 2,200

\$ 3,540

WALD, HARKRADER & ROSS
Alaska Pipeline Contract

Summary Sheet

ALTERNATIVE A

Time	\$300,500 ^{A/}
Expenses	<u>366,200^{B/}</u>
	666,700
G&A (21%)	<u>140,007^{C/}</u>
Total	<u>\$806,707</u>

A/ See Schedule A attached.

B/ See Schedule B attached.

C/ Does not include any attorney's wages or fringes.

SCHEDULE A

Estimated Expenses

January - June 1977

TIME

<u>Name</u>	<u>Title</u>	<u>Rate/Hr.</u>	<u>Est. Hours</u>	<u>Dollar Value of Estimated Time</u>
Lenzner	Attorney	\$ 100	1000	\$ 100,000
Berg	Attorney	65	750	48,750
Watson	Attorney	80	350	28,000
DeOrio	Investigator	40	750	30,000
Ginsberg	Investigator	40	1000	40,000
Caplan	Investigator	30	1000	30,000
McEwen	Paralegal	30	500	15,000
Sadler	Paralegal	35	250	<u>8,750</u>
Total Dollar Value of Estimated Time				<u>\$ 300,500</u>

#3393

AUTHORITY TO ENTER CONTRACT NEGOTIATIONS

TO: Department of Administration

FROM: Dept. of Commerce & Econ. Dev. Harry J. Donahue
(Department) (Name of Writer)

DATE: November 9, 1976

(This form must be executed prior to entering negotiations regarding personal services contracts, or negotiated contracts for other services, materials or goods, or construction, when the contract amount is for \$1,000 or more in an annual period.)

It is the intent of the Department of Commerce & Economic Development to negotiate a contract for the total amount of \$ 50,000.00 for the period November 17, 1976 to April 1, 1977. The contract may be described as follows: (check appropriate blank)

- 1. Personal services contracts
- 2. Negotiated contracts as follows:
 - (a) goods or materials contracts
 - (b) construction contracts
 - (c) services contracts which may not be considered "personal services"

The contract is for the accomplishment of the following purpose(s):
to prepare a study determining the justness and reasonableness of
the rates to be charged for the transportation of oil and gas by
pipeline within the State of Alaska.

We intend to negotiate with the following persons or firms, listed in order of our preference:

- 1. Technical Associates, Inc.
- 2. _____
- 3. _____
- 4. _____

The concurrence of the Department of Administration is sought so that we may proceed.

CONCUR:

[Signature]
 Department of Administration

Date: 12/1/76



AGREEMENT BETWEEN THE ALASKA PIPELINE
COMMISSION AND TECHNICAL ASSOCIATES, INC.

WHEREAS, the Alaska Pipeline Commission is an independent regulatory agency created by the Legislature of the State of Alaska for the purpose of regulating the transportation of oil and gas by pipeline; and

WHEREAS, the Alaska Pipeline Commission, in furtherance of its statutory duties, has been charged with the responsibility of determining the justness and reasonableness of the rates to be charged for the transportation of oil and gas by pipeline within the State of Alaska; and

WHEREAS, it has been determined that this function can best be discharged, if the Commission has available to it expert advice with regard to the development of sound regulatory policies and practices; and

WHEREAS, Technical Associates, Inc., is a corporation engaged in the business of providing consulting, engineering and economic advice and which is both able and willing to prepare such a study for the Commission, the parties hereby agree as follows:

1. Period of Contract. That Technical Associates, Inc., will be employed as a consultant by the Alaska Pipeline Commission to prepare a study and report. The employment of Technical Associates, Inc., shall commence November 15, 1976 and last until April 1, 1977, at which time the final report of Technical Associates, Inc., shall be submitted to the Alaska Pipeline Commission.

2. Cancellation of Contract. This contract may be cancelled by the Alaska Pipeline Commission without cause on 30 days' notice, but Technical Associates, Inc., will be compensated for work performed up to the date of cancellation.

3. Duties. Technical Associates, Inc., shall study and report to the Alaska Pipeline Commission on those subjects

described in Phase 1, Tasks 1-7, as described in the Proposal to Develop Sound Regulatory Policies and Practices for the Regulation of Oil Pipelines in Alaska, submitted to the Alaska Pipeline Commission by Technical Associates, Inc., prepared by Technical Associates, Inc., on October 14, 1976. A listing of these topics can be found on pages 4 and 5 of the proposal referenced above and submitted by Technical Associates, Inc., to the Alaska Pipeline Commission.

4. Compensation. Technical Associates, Inc., will receive from the Alaska Pipeline Commission \$50,000 in compensation for the study to be performed pursuant to the terms of this contract. This amount includes all amounts necessary to be expended by Technical Associates, Inc., except for transportation and travel expenses for the purpose of carrying out the study pursuant to paragraph 3 above. Transportation and travel expenses will be reimbursed separately. Bills will be submitted monthly by Technical Associates, Inc., with a statement of work performed and expenses incurred.

5. Work Papers, Research Notes and Other Data. Work papers, research notes and other materials accumulated by Technical Associates, Inc., during the course of the study shall be considered to be the property of the Alaska Pipeline Commission. This property shall be turned over to the Alaska Pipeline Commission upon request of the Commission or at the conclusion of the study.

6. Nondisclosure of Information. Technical Associates, Inc., agrees not to disclose nor permit any individual employed by it pursuant to the terms of this agreement to disclose information obtained during the course of the study without the express permission of the Alaska Pipeline Commission.

7. Liability. Technical Associates agrees to hold the State harmless for any liability incurred by it or by any

individual employed by the corporation pursuant during the life of this agreement and pursuant to the provisions of this agreement, including but not limited to liability for personal injuries, libel and improper disclosure of trade secrets of confidential information.

8. Remedy for Breach. In the event of a breach of this contract, the parties may file suits in a Superior Court within the State of Alaska for damages or specific performance. Nothing contained in this agreement shall be construed as a waiver of the sovereign immunity of the State of Alaska from being used in the courts of the United States or of other states. Any dispute between the parties shall be settled with reference to Alaska law.

9. Entire Agreement. This agreement is the entire agreement between the parties. There are no unintegrated oral agreements. This agreement may not be changed orally, but only in writing, signed by the parties.

10. Nondiscrimination. Technical Associates, Inc., agrees that during the course of study it will comply with all applicable Federal and State laws prohibiting discrimination.

DATED this 20th day of December, 1976.

ALASKA PIPELINE COMMISSION

By: Harry J. Donahue
Harry J. Donahue, Chairman

DATED this 27th day of December, 1976.

TECHNICAL ASSOCIATES, INC.

By: Michael J. Ileo
Michael J. Ileo, President

Langhorne A. Motley
Langhorne A. Motley, Commissioner
Department of Commerce and Economic Development

Robert
Department of Administration

A PROPOSAL TO DEVELOP
SOUND REGULATORY POLICIES AND PRACTICES
FOR THE REGULATION OF OIL PIPELINES IN ALASKA

SUBMITTED TO
THE ALASKA PIPELINE COMMISSION

PREPARED BY
TECHNICAL ASSOCIATES, INCORPORATED
OCTOBER 14, 1976



TECHNICAL ASSOCIATES INCORPORATED

Consulting Economists and Engineers

Suite 240 - Fidelity Bldg., 830 East Main Street, Richmond, Virginia 23219 (804) 644-4554

Suite 519 - 910 17th Street, N.W., Washington, D. C. 20006 (202) 296-5100

A PROPOSAL TO DEVELOP
SOUND REGULATORY POLICIES AND PRACTICES
FOR THE REGULATION OF OIL PIPELINES IN ALASKA

I. INTRODUCTION, OVERVIEW AND STUDY OBJECTIVES

This proposal has been prepared by Technical Associates, Incorporated ("the Consultant") in response to a request of the Alaska Pipeline Commission ("the Commission"). The purpose of the proposal is to set forth the study design and estimated cost of performing a comparative analysis of public utility regulation, particularly oil pipeline regulation, so as to determine the policies and practices which should be employed by the Commission in regulating oil pipelines in accordance with its statutory responsibilities and the objectives of regulation.

The Commission is a newly created agency charged with the responsibility of regulating the rates and services of oil pipelines operating within its jurisdictional authority. Its principle function is to insure that an equitable balance is achieved between the private interests of pipelines and the public interest of consumers generally. To date, the Commission has not exercised its regulatory authority as to the proper and fair level of rates which

should be assigned to the oil pipeline services offered to the public. Nor has the Commission set forth its regulatory philosophy or the methods by which that philosophy is to be activated.

Although the Commission has regulatory authority over all oil pipelines operating in Alaska, the paramount concern currently and for the foreseeable future is the determination of the rates of charge to be permitted for the services to be offered by the Trans Alaska Pipeline which is being constructed by the Alyeska Pipeline Service Company. As the Commission has correctly recognized, the sheer size of this project coupled with the importance of oil to Alaska and the nation, makes it imperative that considerable care be taken in formulating regulatory policies and practices.

While the Commission is essentially free of regulatory precedence or case law, it is keenly aware of its obligation to carefully consider the theory of regulation, the objectives to be met through regulation, and the regulatory policies and practices which have evolved through the years in other regulatory jurisdictions and in other regulated industries. In regard to this latter point, the Commission is in a preferred position, for it will be able to mold a regulatory process free of the patch-work which has sometimes characterized regulation in other jurisdictions.

In order to develop sound regulatory policies and practices, the Commission recognizes that it must have before it all views as to what constitutes the proper regulation of oil pipelines. It must also be aware of the advantages and disadvantages of any particular policy or practice. And perhaps most importantly, the Commission must know which policy or practice best comports with the theory and objectives of regulation.

The Consultant proposes to meet these needs of the Commission by conducting a study which will set forth the theory of regulation and the economic objectives that must be achieved through a regulatory process; the policy and practices which have been offered and/or used to accomplish the objectives of regulation; an identification of the extent to which these policies and practices comply with the theory of regulation; recommendations as to the appropriate policies and practices which should be employed by the Commission; and an application of the recommended policies and practices to the Trans Alaska Pipeline.

The next section (Part II) of the proposal identifies the tasks which the Consultant will perform to meet the goals of the study. As indicated, the study will be bifurcated into a generic phase and a specific phase. The former (Phase I) will focus on the development of sound regulatory policies and practices. The latter

phase (Phase II) will involve an application of the policies and practices, as determined in Phase I, to the Trans Alaska Pipeline in order to actually determine the rates of charge. Phase II will also involve a determination of the rates of charge which would result if the oil pipeline regulatory practices of the Interstate Commerce Commission were used.

The final two sections of the proposal presents the management plan of the Consultant (Part III) and the estimated cost of performing the study (Part IV).

II. STATEMENT OF WORK

As indicated in Part I, the proposed study will contain two phases:

Phase I - a determination of the policies and practices which should be employed by the Commission in regulating Alaskan oil pipelines; and

Phase II - an application of the policies and practices recommended in Phase I to the Trans Alaska Pipeline to determine the rates to be charged for oil pipeline services.

The tasks within each phase are discussed in the following subsections.

A. Phase I¹

This phase of the study will focus on (1) the theory and objectives of regulation; (2) the overall cost of oil

¹The Consultant anticipates that Phase I will also involve presentation of the proposed study design in a hearing before the Commission on approximately December 1, 1976 involving Nikishka Pipeline.

pipeline service, consequent revenue requirement, and methods by which costs are appropriately determined; (3) the proper valuation of the rate base which is used and useful in providing oil pipeline services; (4) the fair rate of return to be permitted on the rate base; (5) the reasonableness of expenses incurred by oil pipelines; (6) the rate structure to be employed in pricing oil pipeline services; and (7) specialized accounting and/or regulatory practices.

Task A.1 will involve a review and analysis of relevant literature on the theory and objectives of regulation. The literature to be reviewed will include, but not be limited to, economic and technical treatises on the theory of regulation, legal articles and opinions relevant to regulatory pricing, and key regulatory decisions and orders. The purpose of Task A.1 is to establish the guidelines against which the appropriateness of any regulatory decision can be tested and to set forth the framework of sound regulatory policy.

Task A.2 will focus on the cost of service approach to the determination of revenue requirements. This approach defines the overall cost of service of a regulated company as the sum of: (a) operating expenses; (b) depreciation; (c) income taxes; and (d) a fair return on the net value of the assets (rate base) used in providing

service. The relationship between the annual revenue requirement and the annual cost of service can be expressed algebraically as: $R = E + D + T + r(VP - AD)$, where (R) is revenue requirement; (E) is operating expenses; (D) is depreciation; (T) is income taxes; (r) is the fair return; (VP) is the gross value of the assets; and (AD) is accumulated depreciation. The return component, r, is typically defined as: $r = i\left(\frac{D}{C}\right) + k\left(\frac{E}{C}\right)$, where (r) is the fair rate of return; (i) is the cost of debt capital; (D) is the amount of debt capital; (k) is the cost of equity capital; (E) is the amount of equity capital; and (C) is the amount of total capital.

Although the algebraic expressions provide convenient means of capsulizing the cost of service approach, it must be understood that each of the terms in the expression is subject to numerous interpretations and methods of calculation. The purpose of Task A.2 is to describe fully the cost of service approach, its relationship to the theory and objective of regulation, to identify alternative interpretations and methods of calculation, and the data necessary for calculating each of the cost components.

This task will also involve a discussion of such topics as the use of a test period to estimate revenues and costs. Within this discussion emphasis will be placed on the concepts of a modified and fully adjusted test

period and their relationship to such factors as the elasticity of demand, economic growth, productivity, inflation and technological change.

Task A.3, when completed, will set forth an in-depth discussion and analysis of the various methods which have been either proposed or are in use by regulatory agencies to determine the assets which are used and useful in providing service (rate base) and the depreciation relative to the rate base to be allowed as an operating expense. Each of these methods will be discussed with regard to their consistency with the theory of regulation, the ease with which the method can be used and the impact on rate levels as a result of using the method.

Task A.4 will involve a detailed explanation of the cost of capital approach to the determination of the fair rate of return. Primary emphasis will be placed on the determination of the cost of equity capital through an explanation of the use of such indicators as comparable earnings, discounted cash flow, price/earnings ratios, market/book ratios, and coverage ratios. In addition, the analysis will consider such issues as the appropriateness of the capital structure, the reasonableness of interest costs, the relationship between rate base and capitalization and the dichotomy between business and financial risk.

Task A.5 will address the question of how regulation should insure that the expenses claimed by regulated companies for ratemaking purposes were incurred under honest, efficient and prudent management. The specific issues to be addressed include, but are not limited to, the treatment of research and development expenses, advertising and promotional expenses, expenses for services provided by affiliated companies, and administrative and/or overhead costs.

Task A.6 will focus on theoretical and applied procedures for distributing the overall cost of service (Task A.2) among the various customers. In the case of pipelines, customers are truly point to point (origin-destination) movements. The two philosophies to be explored with regard to rate structure or tariff design are value of service pricing and cost of service pricing. The former rests on the premise that cross-subsidization is necessary to maximize aggregate social benefits while the latter argues that social benefits can only be maximized when all rates reflect costs. The advantages and disadvantages of each of these approaches, as well as their comparative merits, will be fully explored.

With regard to the cost of service pricing philosophy, a detailed discussion will be presented on the difference between marginal (incremental) and fully distributed (average)

costs, the ratemaking appropriateness of the respective concepts, how the costs should be determined in each case, and the impact on rate levels resulting from each of the cost concepts.

Task A.7, the final major task, will involve a review of the impact of certain significant accounting and/or regulatory policies. These will include, but not be limited to, policies related to automatic adjustment clauses, construction work in progress, reserve capacity, interest during construction, and normalization versus flow-through.

B. Phase II

This phase of the study will (1) set forth the regulatory policy and practice recommendations of the Consultant based on the work conducted in Phase I; (2) present the results of a cost of service analysis of the Trans Alaska Pipeline conducted in accordance with the recommended regulatory policies and procedures; and (3) present and analyze the results of a cost of service study of the Trans Alaska Pipeline based on practices heretofore used by the Interstate Commerce Commission.

Phase II will be prepared in the format of question and answer testimony with supporting exhibits in anticipation that it will be eventually offered in a

regulatory proceeding either before the Commission or some other regulatory body.

Task B.1 will involve a detailed identification of the regulatory policies and practices recommended by the Consultant and a comprehensive discussion of the basis for those recommendations. Phase I, therefore, provides the foundation upon which the "testimony" in Phase II will invariably rest.

Task B.2, given that the required cost data is provided by Trans Alaska Pipeline and that investigations are completed,² will involve an application of the recommended policies and practices to the Trans Alaska Pipeline. The specific issues which the testimony will address with regard to the Pipeline and a finding reached include:

- (1) its overall cost of service and revenue requirement;
- (2) the proper rate base and depreciation;
- (3) the allowable expenses for ratemaking purposes;
- (4) the fair rate of return to be allowed; and
- (5) the appropriate level and structure of rates.

²The Consultant will be unable to complete Phase II until all necessary data are provided. In this regard, it may be necessary for the Consultant, working in conjunction with the Commission, to file interrogatories with the Trans Alaska Pipeline.

To the extent that any investigations are not completed, the corresponding results obviously cannot be considered in Phase II. The Consultant will stay abreast of the investigations being conducted in Alaska as well as those of the Interstate Commerce Commission, the General Accounting Office, and the Department of Transportation.

Task B.3 will consist of work paralleling that performed in Task B.2, except that it will be conducted employing the practices which have been used by the Interstate Commerce Commission to regulate oil pipelines. The purpose of this task is not only to show the impact of such policies, but also how such policies have developed. Additionally, work on this task will explore the rationale for ICC decisions in the past and the extent to which it has regulated oil pipelines.

III. MANAGEMENT PLAN³

The study project will be directed by Michael J. Ileo,⁴ President of Technical Associates, Inc. In this role, he will be involved on a day-to-day basis in the technical direction of the project. Under the supervision of Dr. Ileo, primary responsibility for the completion of Phase I will rest with Mr. David C. Parcell while Mr. Joe S. McKnight will assume the responsibility for completion of Phase II.

The task leaders have been chosen so as to insure the proper mix of skills. Each task leader is a senior level professional accustomed to directing efforts of similar complexity. It is recognized that the efforts within the individual tasks are interactive and the entire team is accustomed to working together toward a common objective.

³ See Appendix A for resumes of the Project Staff.

⁴ The Consultant anticipates that all expert testimony will be provided by Dr. Ileo and Mr. Parcell.

Task leaders and groups for Phase I of the study project are:

Task A.1 - David C. Parcell

Task A.2 - James R. Marchand

Task A.3 - Michael J. Ileo, Kenneth C. Strobl

Task A.4 - David C. Parcell, James R. Marchand

Task A.5 - Russel D. Thorell, Joe S. McKnight

Task A.6 - Michael J. Ileo, Neale M. Robertson

Task A.7 - Russel D. Thorell

Data Research and

Technical Support - Susan L. Hiser, Alan D. Haymes,
Jeanne Magro, and Robert E. Hammack

Task leaders and groups for Phase II of the study project are:

Task B.1 - Michael J. Ileo, David C. Parcell and
Joe S. McKnight

Task B.2 - James R. Marchand, Russel D. Thorell,
David C. Parcell, Joe S. McKnight

Task B.3 - Neale M. Robertson, Kenneth C. Strobl
and Michael J. Ileo

Data Research and

Technical Support - Susan L. Hiser, Alan D. Haymes,
Jeanne Magro, and Robert E. Hammack

Tables 1 and 2, respectively, show the timeframe proposed by the Consultant for completing the tasks in Phases I and II. As indicated, the tasks in Phase I can largely be conducted simultaneously once Task A.1 is underway. The largest effort will be required in completing Task A.6. The Consultant proposes to complete Phase I by

submitting a preliminary draft of the study to the Commission four months after a contract is awarded. A final draft of the study will be submitted fifteen days after the Consultant receives the comments of the Commission on the preliminary draft.

As shown in Table 2, Task B.1 will be completed simultaneously with the completion of Phase I, after Commission review. Tasks B.2 and B.3 can begin very shortly after a contract is awarded; the initial efforts will involve data collection and organization. It is proposed that the Consultant will submit the completed Phase II in question and answer testimony form seven months after the date of contract award.

IV. COST PROPOSAL

Tables 3 and 4, respectively, present the Consultant's cost estimates for services rendered in completing Phases I and II. As shown in Table 3, the Consultant estimates that Phase I will require 1,980 person hours to complete at an estimated cost of \$56,600. As noted in the Table, the estimate covers all costs incurred by the Consultant except travel and per diem. In Phase I, one trip to Alaska during December for Dr. Ileo and Mr. Parcell will be necessary to testify as to the study design. It is estimated that this cost will be approximately \$1,500.

Table 4 shows the Consultant's cost estimate for services rendered in completing Phase II. As indicated, it is estimated that the work effort will involve 6,040 person hours at a cost of \$160,740. The nature of travel and per diem expenditures is indeterminate at this time, except that at least one trip to Alaska for several days will be necessary to briefly inspect the Trans Alaska Pipeline.

The total cost of Phases I and II is estimated to be \$217,340 with a total work effort of 8,020 hours or roughly 4 person years. The estimate provides for the delivery of ten copies of both the final reports of Phases I and II. The estimate does not provide for the actual presentation of testimony other than the presentation in December. A separate contract would be required for such services, but at the same billing rates.

Since the Commission has expressed an interest in a range for the cost estimate, the Consultant has taken a 5 percent variance about its estimate. Consequently, the estimated total cost of the study is in the range of \$206,473 to \$228,207.

TABLE 1
 TIME FRAME OF TASKS FOR PHASE I ¹⁾

TASK	MONTHS AFTER CONTRACT AWARD							
	1	2	3	4	5	6	7	8
A.1	—							
A.2		—						
A.3		—						
A.4		—						
A.5			—					
A.6		—						
A.7		—			2)	3)	4)	

- 1) Work effort contemplated to begin by the first of November, 1976.
- 2) Preliminary draft of report due to Commission by March 1, 1977 for review.
- 3) Reviewed preliminary draft report with comments, due to Technical Associates by March 15, 1977.
- 4) Submission of final report due to Commission April 1, 1977.

TABLE 3

COST ESTIMATE FOR COMPLETION OF PHASE I

Task	Consultant	Estimated Hours	Hourly Billing Rate ¹	Cost	Totals
A.1	M. J. Ileo	40	\$40	\$1600	\$6,890
	D. C. Parcell	80	36	2880	
	Research & Technical Support	160	15	2400	
	Secretarial Support	10	10	100	
A.2	M. J. Ileo	40	\$40	\$1600	\$7,320
	D. C. Parcell	40	36	1440	
	J. M. Marchand	80	36	2880	
	Research & Technical Support	80	15	1200	
	Secretarial Support	20	10	200	
A.3	M. J. Ileo	100	\$40	\$4000	\$11,040
	D. C. Parcell	40	36	1440	
	K. C. Strobl	160	30	4800	
	Research & Technical Support	40	15	600	
	Secretarial Support	20	10	200	
A.4	M. J. Ileo	20	\$40	\$ 800	\$4,380
	D. C. Parcell	40	36	1440	
	J. M. Marchand	40	36	1440	
	Research & Technical Support	40	15	600	
	Secretarial Support	10	10	100	
A.5	M. J. Ileo	20	\$40	\$ 800	\$8,380
	D. C. Parcell	20	36	720	
	R. D. Thorell	120	36	4320	
	J. S. McKnight	40	36	1440	
	Research & Technical Support	60	15	900	
	Secretarial Support	20	10	200	

TABLE 2

TIME FRAME OF TASKS FOR PHASE II ¹⁾

TASK	MONTHS AFTER CONTRACT AWARD							
	1	2	3	4	5	6	7	8
B.1								
B.2								
B.3								2)

- 1) Time frame of Phase II Tasks to be contingent on the commencement of Phase I on the first of November, 1976.
- 2) Submission of Phase II report due to Commission by June 1, 1977.

TABLE 3
 COST ESTIMATE FOR COMPLETION OF PHASE I
 (CONTINUED)

Task	Consultant	Estimated Hours	Hours Billing Rate ¹	Cost	Totals
A.6	M. J. Ileo	80	\$40	\$3200	\$10,520
	D. C. Parcell	20	36	720	
	N. M. Robertson	160	30	4800	
	Research & Technical Support	100	15	1500	
	Secretarial Support	30	10	300	
A.7	M. J. Ileo	20	\$40	\$ 800	\$ 7,960
	D. C. Parcell	20	36	720	
	R. D. Thorelli	160	36	5760	
	Research & Technical Support	40	15	600	
	Secretarial Support	10	10	100	
TOTAL		\$1,980			\$56,600 ²

¹Hourly billing rates include overhead and profit.

²Does not include travel and per diem -- to be determined on out-of-pocket expenses based on necessary travel to be prescribed by the Commission.

TABLE 4

COST ESTIMATE FOR COMPLETION OF PHASE II

Task	Consultant	Estimated Hours	Hours Billing Rate ¹	Cost	Totals
B.1	M. J. Ileo	40	\$40	\$1600	\$ 4,680
	D. C. Parcell	40	36	1440	
	J. S. McKnight	40	36	1440	
	Secretarial Support	20	10	200	
B.2	M. J. Ileo	280	\$40	\$11,200	\$85,440
	J. R. Marchand	400	36	14,400	
	R. D. Thorell	320	36	11,520	
	D. C. Parcell	280	36	10,080	
	J. S. McKnight	640	36	23,040	
	Research & Technical Support	800	15	12,000	
Secretarial Support	320	10	3,200		
B.3	M. J. Ileo	280	\$40	\$11,200	\$76,200
	J. S. McKnight	320	36	11,520	
	N. M. Robertson	520	30	15,600	
	K. C. Strobl	520	30	15,600	
	Research & Technical Support	900	15	13,500	
	Secretarial Support	320	10	3,200	
TOTAL		6,010			\$160,740 ²

¹Hourly billing rates include overhead and profit.

²Does not include travel and per diem -- to be determined on out-of-pocket expenses based on necessary travel to be prescribed by the Commission.

APPENDIX A

VITAS OF PROJECT STAFF

MICHAEL J. ILEO
President

EDUCATION

1969-1972 Ph.D., Economics, Virginia Polytechnic Institute and
State University (Blacksburg)
1967-1969 Graduate Economics, University of Missouri (Columbia)
1965-1967 M.S., Economics, University of Rhode Island (Kingston)
1963-1965 B.S., Business Economics, University of Rhode Island (Kingston)
1961-1963 A.S., Accounting, Roger Williams College, Bristol, Rhode Island

POSITIONS

1972-Present President, Technical Associates, Inc.
1971-1972 Vice President, Technical Associates, Inc.
1969-1971 Research Economist, Technical Associates, Inc.
1968-1969 Research Associate, Department of Electrical Engineering,
University of Missouri (Columbia)
1967-1968 Economics Instructor, Department of Economics, University
of Missouri (Columbia)
1965-1967 Consulting Economist, Monsanto Chemical Company

EXPERIENCE

Monetary Economics - Conducted profitability, feasibility and expansion studies for a number of banks and savings and loan associations. Advised other financial institutions on interest rate structure and loan maturity. Presented expert testimony before the Regional Administrator of National Banks and the Virginia State Corporation Commission with respect to certificates for need and convenience, permissible interest rates and term to maturity for loans. Published law review articles on banking questions.

Utility Economics - Testified before many state and Federal regulatory commissions in numerous rate proceedings concerned with electric, gas, water and telephone utilities. Testimony dealt with cost of capital, cost of service, and rate design including marginal cost and peak load pricing. Published a law review article on utility regulation in Virginia.

Environmental & Social Economics - Supervised a research team that developed a computer model (benefit/cost framework) for selecting corridors (via a search technique) which minimize social costs including environmental costs. Developed a benefit/cost model for evaluating alternative projects for reducing recidivism among juvenile delinquents. Supervised a research team which developed a benefit/cost model for assessing the social impact of rail abandonment on local communities.

Transportation Economics - Conducted cost of service studies to assess profitability of oil pipelines, trucks, taxicabs and railroads. Analyses have been presented before the Interstate Commerce Commission in rate proceedings. Served as a consultant to the Rail Services Planning Office on the reorganization of rail service in the U.S.

Energy Economics - Conducted studies on the relationship between utility pricing practices and the demand and supply of oil for residential heating purposes. Analyzed the relative energy efficiencies of rail versus truck transportation. Conducted studies of the structure and performance of the petro-chemical industry.

MEMBERSHIPS

American Economic Association
Western Economic Association
Southern Economic Association
American Risk and Insurance Association
American Academy of Political & Social Studies

DAVID PARCELL
Vice President

EDUCATION

1969-1970 M.A., Economics, Virginia Polytechnic Institute and State University, (Blacksburg)
1965-1969 B.A., Business Economics, Virginia Polytechnic Institute and State University (Blacksburg)

POSITIONS

1972-Present Vice President, Technical Associates, Inc.
1969-1972 Research Economist, Technical Associates, Inc.
1968-1969 Research Associate, Department of Economics, Virginia Polytechnic Institute and State University (Blacksburg)

EXPERIENCE

Monetary Economics - Conducted profitability, feasibility and expansion studies for a number of banks and savings & loan associations. Advised other financial institutions on interest rate structure and loan maturity. Served as consultant to the Virginia Bureau of Banking and U. S. Department of Justice on the Economics of bank expansion and anti-trust economics. Presented expert testimony before the Regional Administrator of National Banks and the Virginia State Corporation Commission with respect to certificates for need and convenience for organizing banks, savings and loan associations, and branches.

Utility Economics - Testified before the Federal Power Commission and several state utility commissions in numerous rate proceedings concerned with electric, gas, water and telephone utilities. Testimony dealt with cost of capital, rate of return and other matters.

Environmental & Social Economics - Participated in a research team that developed a computer model (benefit/cost framework) for selecting corridors (via a search technique) which minimize social costs including environmental costs. Developed a benefit/cost model for evaluating alternative projects for reducing recidivism among juvenile delinquents. Participated in a research team which developed a benefit/cost model for assessing the social impact of rail abandonment on local communities.

Transportation Economics - Conducted cost of service studies to assess profitability of oil pipelines, trucks, taxicabs and railroads. Analyses have been presented before the Interstate Commerce Commission in rate proceedings. Served as a consultant to the Rail Services Planning Office on the reorganization of rail service in the U. S.

Energy Economics - Conducted studies on the relationship between utility pricing practices and the demand and supply of oil for residential heating purposes. Analyzed the relative energy efficiencies of rail versus truck transportation. Also conducted studies on rate design, including marginal cost pricing and peak load pricing.

Risk & Insurance - Served as a consultant to the Virginia Bureau of Insurance on property and liability insurance ratemaking.

Other Feasibility Studies - Conducted feasibility studies for other business enterprises, including shopping centers, nursing homes and housing developments.

MEMBERSHIPS

American Economic Association
American Marketing Association
National Association of Business Economists
Virginia Association of Economists

JOE S. MCKNIGHT
Consultant

EDUCATION

1958-1964 Advanced graduate studies in Management and Economics, Texas
 Christian University
1957 M.S., Industrial Psychology, Oklahoma State University
1954 B.S.C., Business Administration, Oklahoma State University

POSITIONS

1975-Present Consultant, Technical Associates, Inc.
1967-1975 NUS Corporation
1957-1967 General Dynamics Corporation, Management Systems Specialist
1955-1957 Montgomery Ward and Company, Industrial Engineer

EXPERIENCE

Utility and Transportation Economics - Directed project to assess the structure and performance of the Bureau of Insurance, Virginia State Corporation Commission. Analysis of utility load forecasts and the need for transmission line expansions. Study and preparation of testimony on the question of railroad branch line abandonment. Major participant in the development of the Connecticut state rail plan. Review of numerous state rail plans for Rail Services Planning Office, Interstate Commerce Commission.

General Economics - Served as a lecturer in Economics at Texas Christian University. Managed Cost and Economics Section of large Operations Research Group supervising studies in cost estimating, cost-effectiveness trade-off studies and cost forecasting mathematical models. Supervised or conducted economic development, urban and regional development, and economic impact studies. Conducted socio-economic impact studies for a variety of proposed utility, petrochemical and transportation systems.

Corporate Management - Responsible for division financial performance; establishing current and long range divisional objectives, plans, policies and budgets consistent with corporate objectives; representing division and corporation with clients and public; directing, administering and coordinating divisional and interdivisional activities. Responsible for developing and maintaining sound organizational structure and management development program.

Management Consulting - Served as senior consultant and directed studies in a variety of management areas including financial planning, industrial engineering, management information systems, marketing and market research, personnel management and executive development, organizational planning and records management.

Systems Analysis - As Manager of the Systems Development Group held corporate responsibility for sales and technical activities in the areas of operations research, assurance engineering, configuration management, and systems engineering. Also responsible for several studies in environmental planning and water resources.

MEMBERSHIPS

American Management Association
Operations Research Society of America
American Economic Association

JAMES R. MARCHAND
Research Economist

EDUCATION

1970-1973 Ph.D. Economics, Virginia Polytechnic Institute and State University (Blacksburg)
1966-1970 Graduate Economics, University of California (San Diego)
1962-1966 B.A., Mathematics, Economics Minor, University of California (Riverside)

POSITIONS

1975-Present Assistant Professor, Economics, Virginia Commonwealth University, (Richmond)
1971-1975 Assistant Professor, Economics, California State University, (Northridge)
1970-1971 Instructor, Economics, Virginia Polytechnic Institute and State University
1970-Present Research Economist, Technical Associates, Inc. (Richmond, Virginia)
1970 Economic Consultant, State of Virginia
1967-1970 Research Assistant, U. S. Treasury, Washington, D. C.
1966-1968 Instructor, Economics, University of California (San Diego)
1966 Research Assistant, University of California (Riverside)

EXPERIENCE

Environmental Economics - Research on the effects of and the correction of externalities in supply, unpublished doctoral dissertation. Publications in *American Economic Review*, Sept. 1973, "Externalities, Liability Separability and Resource Allocation", "Externalities, Liability, Separability and Resource Allocation, Reply", Sept. 1975. Development of a linear programming model for land-use planning under environmental constraints. Preparation of an upper division undergraduate textbook on environmental economics.

Utility Economics - Preparation of testimony on the effects and need for incremental cost pricing for presentation before several utility commissions. Preparation of rate structure reflecting incremental cost for Virginia utilities. Testimony before U. S. and Pennsylvania legislatures on electricity rate structures.

Energy Economics - Analysis of the effects of the gas and electric utility pricing on the consumer petroleum market. Study of promotional practices of gas and electric utilities and their effect on the home heating oil market.

Economics of Crime - Assisted in the preparation of a survey of the facilities of the original justice system in Virginia. Development of price indexes for the illicit heroin market as a measure of the effectiveness of law enforcement.

International Economics - Analysis of the effects of the proposed legislation on tariffs, subsidies, and monetary institutions. Econometric estimation of import and export demand equations.

Monetary Economics - Analysis of the need for branch banks and new bank facilities in the state of Virginia. Testified on branch applications before the Virginia State Corporation Commission.

Economics of Industrial Organization - Preparation of statistics on industrial concentration and structure.

MEMBERSHIPS

American Economics Association
Public Choice Society
National Tax Association

RUSSELL D. THORELL
ASSOCIATE CONSULTANT

EDUCATION

1951-1956 B.S., Accounting, University of Illinois
1957 Certified Public Accountant

EXPERIENCE

1976-Present Consultant to Federal Power Commission on price level accounting and ratemaking policy

1974-1976 Deputy Chief, Bureau of Natural Gas, Federal Power Commission. Worked with Commission for the Bureau in formulating policies and programs particularly on rate matters. Supervised cases pertaining to special relief, optional pricing, cost allocations, limited-term certificates and other cases involving gas pricing. Conducted investigation for Commission and testified as an expert witness.

1973-1974 Consultant to Federal Price Commission. Worked with Commission in developing policies, programs and regulations applicable to regulated industries and succeeded in guiding them to a reasonable program. Testified as an expert witness for Commission in case against the New England Motor Rate Bureau.

1972-1973 Research Associate, National Association of Regulatory Utility Commissioners. Conducted studies on regulatory policy.

Consultant to Union Carbide. Provided expert testimony in rate proceeding before the Interstate Commerce Commission.

1968-1972 Managing Partner, TCM Associates. Development and management of financial holdings which included farmland, cattle and rental properties.

1956-1968 Accountant, Arthur Anderson & Co.

Home Office - Special studies and assignments for the Firm Chairman, Partner in Charge of Firm-Wide Industries and Committee on Accounting Principles and Auditing Procedures (merger studies, rate matters, industry studies, German accounting and Firm policies, etc.).

Chicago Office - Responsibilities for Firm work on assigned clients consisted primarily of maintaining and developing client relationships; preparation and presentation, both written and oral, to management of results of special studies, solutions to problems, and ideas. This work included selection and supervision of men, planning, administrating, research, review and finalization and billing and collecting from clients. It also included recruitment, development and training of staff personnel, both individually and through group training (lecturing, preparation of training material, interviews, etc.).

These assignments were primarily in regulated industries and service fields, including partnerships and a subchapter S corporation. Approximately 50% of the work during this period was in connection with accounting and audits and approximately 50% was of a special nature.

Preparation of testimony and exhibits for regulatory proceedings, i.e., rate of return and cost of service studies in gas, electric, telephone and water utilities.

Special studies for management regarding such matters as: tax, regulatory and economic aspects of acquisitions, advisability of continuing certain segments of business; advisability of filing consolidated Federal income tax returns, review and recommendations regarding operations and management of acquired customer billing techniques and procedures; economics of purchasing gas in place; methods of forming joint ventures; studies of property costs and installation of continuing records.

Special studies for Firm: Theoretical accounting and research on industry problems, review and recommendations for Firm policies and procedures; research and preparation of opinions for Firm, preparation of articles for publication.

KENNETH C. STROBL
Engineer

EDUCATION

1972-1973 M.A., Division of Environmental and Urban Systems, Department of Architecture (thesis requirement uncompleted), Virginia Polytechnic Institute and State University (Blacksburg)
1970-1972 M.S., Department of Engineering, Mechanics, Virginia Polytechnic Institute and State University (Blacksburg)
1963-1966 B.S., Mechanical Engineering, Tri-State College (Angola, Indiana)
1960-1963 Undergraduate Mechanical Engineering, Case Institute of Technology (Cleveland, Ohio)

POSITIONS

1973-Present Consulting Engineer, Technical Associates, Inc.
1972-1973 Research Assistant, Division of Environmental and Urban Systems (Dept. of Architecture), Virginia Polytechnic Institute and State University (Blacksburg)
1970-1972 Graduate teaching and research assistant, Department of Engineering Mechanics, Virginia Polytechnic Institute and State University (Blacksburg)
1966-1970 Development Engineer (Mechanical), Special Products Division, Eastman Kodak Company (Rochester, New York)

EXPERIENCE

Environmental And Social Modeling Techniques - Assisted in the development of a benefit/cost framework for evaluating the local community impact of a rail-road abandonment. Project manager of a research group that developed a computer model that minimizes environmental, social and technological (construction) costs for selecting utility, transportation, etc. corridors.

Technological and Environmental Computer Modeling - Testified before the State Corporation Commission (Virginia) on technological and environmental aspects of electric utility transmission powerline routing. Testimony dealt with the development and capabilities of a computer model designed initially for this Commission.

Transportation Systems - Served as a consultant to the Rail Service Planning Office (ICC) on the reorganization of rail service activities for the Northeast and Midwest U. S.

Experimental Mechanics - Masters Thesis involved normal two-dimensional photoelastic stress analysis of laminated (composite) beams as a part of a research effort for the Department of Defense, Watervliet Arsenal.

Information Systems - Designed and supervised data collection processes, formatting, and computer processing for management and engineering information systems.

Engineering Designs and Studies - Responsible for specifications, designs, development, follow-up and implementation (after hardware manufacture) of mechanical equipment. Assisted in studies of the environment and handling techniques in storage for mechanical structures and equipment. Provided technical liaison with sub-contractors for mechanical equipment designs.

Utilities - Presented testimony before the Maryland Public Service Commission on load forecasting and need for transmission line additions.

MEMBERSHIPS

Virginia Society of Professional Engineers

ALAN D. HAYMES
Economist

EDUCATION

1972-1974 M.A., Economics, Columbia University
1969-1972 B.A., Economics, Virginia Commonwealth University

POSITIONS

1975-Present Economist, Technical Associates, Inc.
1966-1969 First Lieutenant, U. S. Army

EXPERIENCE

Utility Economics - Analysis of utilities' costs of service and performance. Specific analysis of rate of return, including system wide and by customer classes. Computations of the cost of service were for the complete utility system and separate classes of customers. Further analysis of the cost of service including the development of rate structures based on the cost of service. Assistance in the preparation of rate of return testimony.

Urban Economics - Research on the dynamics of urban areas. Emphasis was on the dynamic relationship between municipal expenditures for public goods and services and residential location.

Banking - Conducted analysis on the need for bank branches at particular locations. Studies included economic and demographic analysis as well as analysis of the adequacy of existing institutions.

MEMBERSHIPS

American Economics Association
National Association of Business Economists

JEANNE MAGRO
Research Associate

EDUCATION

1976-Present Graduate Economics, Virginia Commonwealth University
1970-1974 B.A., Economics, Vassar College, Poughkeepsie, New York

POSITIONS

1975-Present Research Associate, Technical Associates, Inc.
1974-1975 Research Assistant, National Economic Research Associates, Inc.,
New York, New York

EXPERIENCE

Utility Economics - Analysis of current and proposed utility rates. Study of electric utility rate structure alternatives. Assisted in compilation of new and planned electric utility plants. Participated in analysis of "lifeline" rate proposals.

Antitrust Economics - Assisted in preparation of testimony in antitrust proceedings.

Transportation Economics - Collected and analyzed cost of service data in oil pipeline case. Prepared all supporting exhibits for testimony in proceeding before ICC.

Health Economics - Analyzed cost control mechanisms for hospitals. Emphasis was on cost review procedures.

Monetary Economics - Analyzed cost of service, rates and structure for consumer finance industry. Assisted in preparation of an alternative rate structure.

ROBERT E. HAWKACK

EDUCATION

1967-1971 B.S., Accounting, Virginia Polytechnic Institute & State University (Blacksburg)

POSITIONS

1974-Present Secretary-Treasurer, Technical Associates, Inc.
1971-1974 Accountant / Research Associate, Technical Associates, Inc.
1970-1971 Research Associate, Crime Prevention Systems Corporation

EXPERIENCE

Accounting - Responsible for all corporate accounting functions, including the preparation and supervision of accounting records, tax reports, and statements.

Monetary Economics - Conducted research on profitability, feasibility and expansion studies for a number of banks and savings & loans associations. Assisted in preparation of testimony for the Regional Administrator of National Banks and the Virginia State Corporation Commission.

Utility Economics - Research on testimony in numerous rate proceedings concerned with electric, gas, water and telephone utilities.

Environmental & Social Economics - Participated in a research team that developed a computer model (benefit/cost framework) for selecting corridors (via a search technique) which minimize social costs including environmental costs.

Transportation Economics - Research on cost of service studies to assess profitability of oil pipelines, trucks, taxicabs and railroads.

Energy Economics - Research on studies on the relationship between utility pricing practices and the demand and supply of oil for residential heating purposes. Analyzed the relative energy efficiencies of rail versus truck transportation.

MEMBERSHIPS

American Management Association

7/1/74

Technical Associates, Inc.



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

2/14/90
Date

JAY S. HAMMOND
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 16, 1977

The Honorable Steve Cowper
House Finance Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Cowper:

In light of the importance of an accurate determination of the actual and reasonable costs of construction of the trans-Alaska Pipeline (TAPS), I request that HB122 "An Act making a supplemental appropriation to the Alaska Pipeline Commission; and providing for an effective date", be amended to an appropriation of \$843,700 in general funds in place of the present \$500,000. Under AS 42.06, the Alaska Pipeline Commission is the appropriate agency to conduct this investigation. The Pipeline Commission has already entered into a contract with Mr. Terry Lenzner for investigation of TAPS under the authority of Revised Program 77-217 as endorsed by the Legislative Budget and Audit Committee. A supplemental appropriation for an additional contract is now needed to continue these efforts.

Mr. Lenzner's investigation will be a detailed and indepth study of the costs and management practices of Alyeska in constructing the trans-Alaska Pipeline. An investigation of this magnitude requires expertise in numerous areas as well as a large amount of time in collecting and analyzing the documents generated by the construction. Mr. Lenzner has agreed to head the investigation, including hiring, organizing, directing, and paying for the activities of the investigative staff, for an amount not to exceed \$806,000. Of this amount, \$645,700 still must be appropriated, and is included in the requested change. Although it is hoped that the investigation will be completed by July 1, 1977, the contract with Mr. Lenzner will probably state an ending date of September 1, 1977, to allow for unexpected developments.

Mr. Lenzner's report will not analyze the data for purposes of the Pipeline Commission's intrastate rate-making activities.

The Honorable Steve Cowper -2-

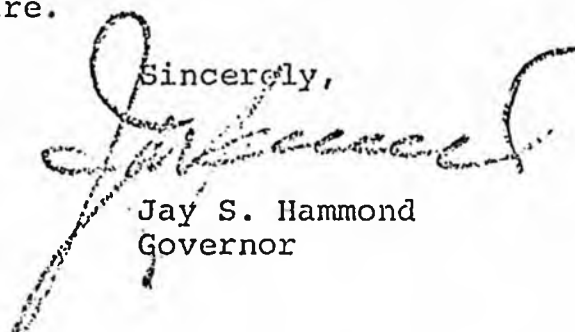
February 16, 1977

This analysis will be provided by Dr. Michael J. Ileo of Technical Associates, Inc., a Washington, D.C. based economic consulting firm. The cost of Dr. Ileo's activities is \$166,000, which sum is included in the requested supplemental appropriation.

Finally the Commission has requested \$21,000 for the hiring of a CPA auditor and engineer for its staff, for the period of April 1, 1977 through June 30, 1977, which amount is also included in the supplemental appropriation.

The Department of Commerce and the Alaska Pipeline Commission as well as the Department of Law are able to provide further verbal and written information regarding the supplemental should you so desire.

Sincerely,



Jay S. Hammond
Governor

John -

3/03

Please return call to
Bob Breeze (279-0583)
operator 6.

11:30

Bob Breage

3-7-77

Money for FY 77 - contracts will
be completed at end of FY 77.

Auditors in budget should not be
at same level

Transfer was authorized in RP 77-68
was never made. Recorded by
RP 77-238

Gary Pecker

Audit Manager range 22 CPA reg.
other CPA's at range 20.

Bill Bowen

The theory auditor does not need to be
CPA to the contract support testimony
- but in practice he (she) does.

1. How does pipeline commission bill tie in with FY 78 budget - when would it lapse?

2. RP's

77-68 - Auditor - range 21 (same range
^{additional auditor}
as requested in budget for FY 78.

77-197 Oct, 1976 100.0 from Gov's contingency
for audit.

77-216 Nov, 1976 Exec. Director

77-217 Nov, 1976 200.0 PR - audit.

NOV 26 1977
SECRET

18 12 -

January 26, 1977

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill making a supplemental appropriation to the Alaska Pipeline Commission for the purpose of investigating the cost of the Trans Alaska Pipeline System and to undertake an economic analysis fundamental to the setting of tariffs for Fiscal Year 1977.

Sincerely,

Jay S. Hammond
Governor

Authority to Enter Contract Negotiations

#3393

TO: Department of Administration
FROM: Dept. of Commerce & Econ. Dev. Harry J. Donahue
(Department) (Name of Writer)
DATE: November 9, 1976

(This form must be executed prior to entering negotiations regarding personal services contracts, or negotiated contracts for other services, materials or goods, or construction, when the contract amount is for \$1,000 or more in an annual period.)

It is the intent of the Department of Commerce & Economic Development to negotiate a contract for the total amount of \$ 50,000.00 for the period November 17, 1976 to April, 1977. The contract may be described as follows: (check appropriate blank)

- () 1. Personal services contracts
- () 2. Negotiated contracts as follows:
 - () (a) goods or materials contracts
 - () (b) construction contracts
 - (X) (c) services contracts which may not be considered "personal services"

The contract is for the accomplishment of the following purpose(s):
to prepare a study determining the justness and reasonableness of the rates to be charged for the transportation of oil and gas by pipeline within the State of Alaska.

We intend to negotiate with the following persons or firms, listed in order of our preference:

- 1. Technical Associates, Inc.
- 2. _____
- 3. _____
- 4. _____

The concurrence of the Department of Administration is sought so that we may proceed.

CONCUR:

R. Smith WJD
Department of Administration

Date: 12/1/76



AGREEMENT BETWEEN THE ALASKA PIPELINE
COMMISSION AND TECHNICAL ASSOCIATES, INC.

WHEREAS, the Alaska Pipeline Commission is an independent regulatory agency created by the Legislature of the State of Alaska for the purpose of regulating the transportation of oil and gas by pipeline; and

WHEREAS, the Alaska Pipeline Commission, in furtherance of its statutory duties, has been charged with the responsibility of determining the justness and reasonableness of the rates to be charged for the transportation of oil and gas by pipeline within the State of Alaska; and

WHEREAS, it has been determined that this function can best be discharged, if the Commission has available to it expert advice with regard to the development of sound regulatory policies and practices; and

WHEREAS, Technical Associates, Inc., is a corporation engaged in the business of providing consulting, engineering and economic advice and which is both able and willing to prepare such a study for the Commission, the parties hereby agree as follows:

1. Period of Contract. That Technical Associates, Inc., will be employed as a consultant by the Alaska Pipeline Commission to prepare a study and report. The employment of Technical Associates, Inc., shall commence November 15, 1976 and last until April 1, 1977, at which time the final report of Technical Associates, Inc., shall be submitted to the Alaska Pipeline Commission.

2. Cancellation of Contract. This contract may be cancelled by the Alaska Pipeline Commission without cause on 30 days' notice, but Technical Associates, Inc., will be compensated for work performed up to the date of cancellation.

3. Duties. Technical Associates, Inc., shall study and report to the Alaska Pipeline Commission on those subjects

described in Phase 1, Tasks 1-7, as described in the Proposal to Develop Sound Regulatory Policies and Practices for the Regulation of Oil Pipelines in Alaska, submitted to the Alaska Pipeline Commission by Technical Associates, Inc., prepared by Technical Associates, Inc., on October 14, 1976. A listing of these topics can be found on pages 4 and 5 of the proposal referenced above and submitted by Technical Associates, Inc., to the Alaska Pipeline Commission.

4. Compensation. Technical Associates, Inc., will receive from the Alaska Pipeline Commission \$50,000 in compensation for the study to be performed pursuant to the terms of this contract. This amount includes all amounts necessary to be expended by Technical Associates, Inc., except for transportation and travel expenses for the purpose of carrying out the study pursuant to paragraph 3 above. Transportation and travel expenses will be reimbursed separately. Bills will be submitted monthly by Technical Associates, Inc., with a statement of work performed and expenses incurred.

5. Work Papers, Research Notes and Other Data. Work papers, research notes and other materials accumulated by Technical Associates, Inc., during the course of the study shall be considered to be the property of the Alaska Pipeline Commission. This property shall be turned over to the Alaska Pipeline Commission upon request of the Commission or at the conclusion of the study.

6. Nondisclosure of Information. Technical Associates, Inc., agrees not to disclose nor permit any individual employed by it pursuant to the terms of this agreement to disclose information obtained during the course of the study without the express permission of the Alaska Pipeline Commission.

7. Liability. Technical Associates agrees to hold the State harmless for any liability incurred by it or by any

individual employed by the corporation pursuant during the life of this agreement and pursuant to the provisions of this agreement, including but not limited to liability for personal injuries, libel and improper disclosure of trade secrets of confidential information.

8. Remedy for Breach. In the event of a breach of this contract, the parties may file suits in a Superior Court within the State of Alaska for damages or specific performance. Nothing contained in this agreement shall be construed as a waiver of the sovereign immunity of the State of Alaska from being used in the courts of the United States or of other states. Any dispute between the parties shall be settled with reference to Alaska law.

9. Entire Agreement. This agreement is the entire agreement between the parties. There are no unintegrated oral agreements. This agreement may not be changed orally, but only in writing, signed by the parties.

10. Nondiscrimination. Technical Associates, Inc., agrees that during the course of study it will comply with all applicable Federal and State laws prohibiting discrimination.

DATED this 20th day of December, 1976.

ALASKA PIPELINE COMMISSION

By: Harry J. Donahue
Harry J. Donahue, Chairman

DATED this 27th day of December, 1976.

TECHNICAL ASSOCIATES, INC.

By: Michael J. Ilco
Michael J. Ilco, President

Langhorne A. Motley
Langhorne A. Motley, Commissioner
Department of Commerce and Economic Development

Robert
Department of Administration

JEANNE MAGRO
Research Associate

EDUCATION

1976-Present Graduate Economics, Virginia Commonwealth University
1970-1974 B.A., Economics, Vassar College, Poughkeepsie, New York

POSITIONS

1975-Present Research Associate, Technical Associates, Inc.
1974-1975 Research Assistant, National Economic Research Associates, Inc.,
New York, New York

EXPERIENCE

Utility Economics - Analysis of current and proposed utility rates. Study of electric utility rate structure alternatives. Assisted in compilation of new and planned electric utility plants. Participated in analysis of "lifeline" rate proposals.

Antitrust Economics - Assisted in preparation of testimony in antitrust proceedings.

Transportation Economics - Collected and analyzed cost of service data in oil pipeline case. Prepared all supporting exhibits for testimony in proceeding before ICC.

Health Economics - Analyzed cost control mechanisms for hospitals. Emphasis was on cost review procedures.

Monetary Economics - Analyzed cost of service, rates and structure for consumer finance industry. Assisted in preparation of an alternative rate structure.

ALAN D. HAYMES
Economist

EDUCATION

1972-1974 M.A., Economics, Columbia University
1969-1972 B.A., Economics, Virginia Commonwealth University

POSITIONS

1975-Present Economist, Technical Associates, Inc.
1966-1969 First Lieutenant, U. S. Army

EXPERIENCE

Utility Economics - Analysis of utilities' costs of service and performance. Specific analysis of rate of return, including system wide and by customer classes. Computations of the cost of service were for the complete utility system and separate classes of customers. Further analysis of the cost of service including the development of rate structures based on the cost of service. Assistance in the preparation of rate of return testimony.

Urban Economics - Research on the dynamics of urban areas. Emphasis was on the dynamic relationship between municipal expenditures for public goods and services and residential location.

Banking - Conducted analysis on the need for bank branches at particular locations. Studies included economic and demographic analysis as well as analysis of the adequacy of existing institutions.

MEMBERSHIPS

American Economics Association
National Association of Business Economists

CSHB 122

2/02/77

14124

STATE OF ALASKA --- COMMENT_BUDGET_SUMMARY

PROGRAM: REGULATION OF BUSINESS & PROFE
 SUB-PROGRAM: ALASKA PIPELINE COMMISSION

FULL BILL LEG REC
 FY82 FY77 YTD FY77 4P FY77 SUP

(109) HOUSE SENATE
 (108) GOVERNOR
 (107) REQUEST

(104) FY77 4P (104) FY77 SUP

(103) YTD (103) FY77 4P (103) FY77 SUP

01	PERSON. SERV.	104.3	184.1	100.00		206.8	430.5	251.1											
02	TRAVEL	4.8	8.5	100.00		12.6	31.3	27.4											
03	CONTRACTUAL	118.1	135.8	100.00		65.4	318.4	296.6											
04	COMMODITIES	1.0	2.0	100.00		2.0	3.5	2.5											
05	EQUIPMENT	5.3				.3	6.0	1.3											
06	LANDS/BLOGS																		
07	GRANTS, GLMS																		
08	MISC.																		
**	TOTAL EXPEND	233.5	330.4	100.00		287.1	789.7	578.9											
09	I-A TRANSFER	.1																	
10	FED. RECEIPT																		
11	G. F. MATCH																		
12	GEN. AL. FUND																		
13	PGM. RECEIPTS																		
14	OTHER FUNDS																		
15	FULL-TIME	6.0	5.0			6.0	12.0	7.0											
16	PART-TIME																		
17	TEMPORARY																		
18	MAN-MONTHS	72.0	60.0			72.0	144.0	84.0											

TITLE	LOCATION	TYPE	REQ	SEB	COST	OTH	COST	TOT	COST	FED.	FUND	GEN.	FUND	OTH.	FUND	GY	HS	SN	FC	EA
1 PIPELINE AUDITOR	ANCHORAGE	FULL	1	38.8	2.7		39.5													
2 PIPELINE AUDITOR	ANCHORAGE	FULL	1	32.5	3.9		36.4													
3 PIPELINE ENGINEER	ANCHORAGE	FULL	1	44.3	2.3		46.6													
4 PIPELINE ENGINEER	ANCHORAGE	FULL	1	44.3	3.3		47.6													
5 RECEPTIONALIST IV	ANCHORAGE	FULL	1	35.5	3.3		38.8													
6 SECRETARY	ANCHORAGE	FULL	1	18.6	3.0		21.6													
7 EXECUTIVE DIRECTOR	ANCHORAGE	FULL	1	51.2	4.5		55.7													
** NEW POSITION TOTALS			7	266.2	23.0		289.2													

RP 77-68 Auditor position 300 TO 100 transfer
 RP 77-197 100.0 Sec Cont for Audit - assumed by RP 77-
 RP 77-216 EXEC Director 300 TO 100 transfer
 RP 77-217 200.0 PR for audit

CSHB

Total

843,700

345,047

(200,000)

RP 77-217

3 months FY 77 - requested
in FY 78 budget

CRA Auditor & Engineer 21,000

will be absorbed by Commission

& per diem expenses - travel

* Does not include travel

Phase 2 (see table 4 attached)

160,740*

Phase 1 (see table 3 attached)

56,600*

Tech Associates

(see Wald, et al attachment)

806,707

Lenzer Contract

Investigation is going into obsolescence
as of today until funds are
approved. Urges the most rapid
consideration. Lenzer has 20
people working

3-3-77

Unofficial - 40's

Ch. 201

CPA Auditor position : Commission currently has lowest level auditor - They are in need of a CPA auditor because of the complexity of accounts audited. In a court of law an auditor must be a CPA or his testimony is not recognized as expert.

Engineer position : Commission has no engineer. Chuck Champions engineers have helped but commission has need for cost engineer to determine cost effectiveness of ~~cost~~ construction methods.

STATE
of ALASKA

MEMORANDUM

TO: The Honorable Steve Cowper
House Finance Committee
Tenth State Legislature

DATE : February 22, 1977

FROM: Robert M. Maynard *RMM*
Assistant Attorney GeneralSUBJECT: HB 122; Governor's
Request of February
16, 1977

The Governor's request of February 16, 1977, asking for an amendment to HB 122 contains a typographical error. The figure of \$645,700 for additional monies allocated to the Lenzner investigation should be \$656,700. The overall figure of \$843,700 is correct. We regret any inconvenience or misunderstanding this may have caused.

RMM:chp

MEMORANDUM

TO: Jay S. Hammond, Governor
State of Alaska

RP 77-217

DATE: November 16, 1976

FROM: Ronald B. Lind, Director
Division of Budget and Management
Office of the Governor

SUBJECT: Alaska Pipeline Commission Request to
Receive and Expend \$200,000 Additional
Program Receipts

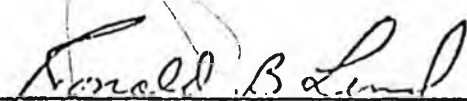
The Department of Commerce and Economic Development, Alaska Pipeline Commission, requests authority to receive and expend \$200,000 additional program receipts. The program receipts are to be used to fund consultant contracts for audits on the Alaska Pipeline.

AS 42.06.610 provides the state with the authority to "allocate the costs of the hearing or investigation among the parties, including the commission, as is just under the circumstances". Alyeska Pipeline Service Company will be billed by the Commission as the work is accomplished.

The Alaska Pipeline Commission will utilize \$50,000 to contract for the development of the evaluation methodology to be used by the commission in the study of the tariff rate on the Trans-Alaska Pipeline.

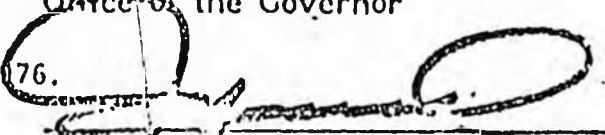
A second contract of \$150,000 will be negotiated for the purpose of investigating costs centers on the Trans-Alaska Pipeline project in which costs appear to have substantially exceeded the estimate. A recommendation will be made to the Commission of those centers which should be thoroughly investigated through field interviews. This contractor will also advise the Commission on the scope and the progress of the Interstate Commerce Commission and the General Accounting Offices inquiries currently underway.

Your approval is requested and recommended in accordance with SLA 1976, Chapter 279, Section 12.

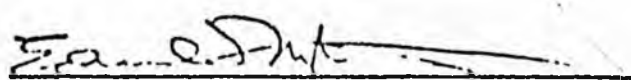


Ronald B. Lind, Director
Division of Budget and Management
Office of the Governor

Approved this 18 day of Nov., 1976.



Jay S. Hammond, Governor
State of Alaska



Legislative Budget and Audit Committee
Date: 11/19/76

WALD, HARKRADER & ROSS
Alaska Pipeline Contract

Summary Sheet

ALTERNATIVE A

Time	\$300,500 ^{A/}
Expenses	<u>366,200^{B/}</u>
	666,700
G&A (21%)	<u>140,007^{C/}</u>
Total	<u>\$806,707</u>

^{A/} See Schedule A attached.

^{B/} See Schedule B attached.

^{C/} Does not include any attorney's wages or fringes.

SCHEDULE A

Estimated Expenses

January - June 1977

TIME

<u>Name</u>	<u>Title</u>	<u>Rate/Hr.</u>	<u>Est. Hours</u>	<u>Dollar Value of Estimated Time</u>
Lenzner	Attorney	\$ 100	1000	\$ 100,000
Berg	Attorney	65	750	48,750
Watson	Attorney	80	350	28,000
DeOrio	Investigator	40	750	30,000
Ginsberg	Investigator	40	1000	40,000
Caplan	Investigator	30	1000	30,000
McEwen	Paralegal	30	500	15,000
Sadler	Paralegal	35	250	<u>8,750</u>
Total Dollar Value of Estimated Time				<u>\$ 300,500</u>

SCHEDULE B

Estimated Expenses

January - June 1977

EXPENSES (Rounded to nearest \$100)

Equipment:	<u>1/</u>	
3 Lanier Dictators		
1 Lanier Transcriber		
4 Lanier Pocket Dictators		\$ 3,400
Furnished Apartments	<u>2/</u>	10,800
Space/Furniture Rental	<u>3/</u>	- 0 -
Light/Heat	<u>4/</u>	- 0 -
Telephone	<u>5/</u>	6,800
Telecom	<u>6/</u>	8,100
Transportation, Local	<u>7/</u>	3,500
Travel, Air Fare Only	<u>8/</u>	16,700
Duplicating	<u>9/</u>	25,000
Insurance	<u>10/</u>	1,000
Temporary Personnel	<u>11/</u>	8,500
Cleaning & Maintenance	<u>12/</u>	1,000
Travel Allowance (per diem)	<u>13/</u>	37,000
Out-of-pocket	<u>14/</u>	1,300
Court Costs	<u>15/</u>	- 0 -
Court Reporter	<u>16/</u>	14,200
Parking	<u>17/</u>	- 0 -
Computer	<u>18/</u>	- 0 -
Taxes	<u>19/</u>	- 0 -
Storage	<u>20/</u>	1,000
Postage	<u>21/</u>	100
Air Freight	<u>22/</u>	7,800
Disbursements	<u>23/</u>	- 0 -
Professional Services:		
Attorney	<u>24/</u>	20,000
Accountants, Investigators		
& Engineering Consultants	<u>24/</u>	125,000
2 Investigators	<u>24/</u>	<u>75,000</u>
Total Estimated Expenses		<u>\$366,200</u>
Total Estimated Time Expenses		<u>\$666,700</u>

[Footnotes attached]

FOOTNOTES TO SCHEDULES A & B

1/ Cost of machines for this project:

3 Dictators and service	\$1,900
1 Transcriber and service	600
4 Pocket Dictators	<u>900</u>
	\$3,400

2/ 3 Apartments at \$600/month for 6 months

3/ Unnecessary if state facilities are used; and assuming apartments are furnished

4/ Included in state facilities

* 5/ Install 2 lines, 2 phones \$ 100
Usage (6 mos.) 100
 \$ 200

Long distance: Assume \$1.25/min

x 30 min/day x 180 days = \$6,750

6/ Cost information not available. Used Dex costs.

2 terminals at \$115 x 6 mos.	\$1,400
Transmission same as phone rates	
\$1.25/min x 30 min/day x 180 days	<u>6,700</u>
= 10 pages/day AVR	<u>\$8,100</u>

* 7/ Car Rental - Standard size cars available only.
Avis \$132/mo + (22 cents/mile x 2,000 mile estimate)
includes oil, maintenance, insurance = \$ 1,232

Gasoline Estimate Alaska 81 cents/gal x 15 MPG x 2,000 mi.	=	<u>108</u>
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Cost of rental car		\$ 1,340
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Taxis \$12/day x 180 days	=	<u>2,200</u>
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\$ 3,540

8/ Assume all routings are DC/Anch/Fairbanks/Anch/DC
 Northwest coach fare = \$613; expect 2% increase over
 next 6 mos. Therefore, average air fare = \$619.

<u>Name</u>	<u>Estimated No. of Trips</u>	<u>Cost</u>
Lenzner	10	\$ 6,190
Investigator A	4	2,476
Watson	1	619
DeOrio	6	3,714
Ginsberg	1	619
Caplan	3	1,857
McEwen	0	0 -
Sadler	<u>2</u>	<u>1,238</u>
	<u>27</u>	<u>\$16,713</u>

9/ Estimate 15 cents/page x 6000 -- 6500 pages/wk
 x 26 wks = \$25,000

10/ Alaskan rates not available. Assumed \$1000
 for fire and extended coverage.

* 11/ Secretary
 $\$6.50 \times 1.25\% \times 35 \text{ hrs/wk} \times 26 \text{ wks} + 15\% \text{ OT} = \8500

* 12/ Cleaning service
 $\$4.00 \times 1.25\% \times 8 \text{ hrs/wk} \times 26 \text{ wks} = \1000

13 / U.S. gov't per diem for Alaska travel (covering food and
 lodging only) \$59/day x 4.5 people x 180 days, less
 furnished apartment (\$10,800) = \$37,000

14 / Assume \$50/wk x 26 wks for misc. charges = \$1300

15/ Anticipate none to be paid by us

* 16/ DC rates: Ordinary delivery .18/pg
 Daily .414/pg
 Rush .54/pg
 Average .38/pg

38 cents x 1.25% x 30,000 pages = \$14,200

- 17/ Street parking available in most areas
- 18/ Need uncertain
- 19/ Anticipate none
- 20/ 400 sq.ft. at \$5/sq.ft. for 6 months
- 21/ Estimate \$4/wk x 26 wks = \$100
(Telecom & Air Freight all else)
- 22/ Bor-Air next day delivery 1 - 50 lbs. = \$100
Estimate 3 packages/wk x \$100 x 26 wks = \$7800
- 23/ No additional anticipated
- 24/ Estimated by T.F. Lenzner, as follows:

Attorney \$35,000: I have offered the job of on-site lawyer to Terry Bird, presently an Assistant United States Attorney in the United States Attorney's Office in Los Angeles at a salary of \$30,000 with expenses of \$5,000, which will be for a six-month period \$15,000 and \$5,000.

Total \$125,000 for Accountants, Investigators, and Engineering Consultants: We will need for a labor intensive effort to examine extensively certain records, audit trials and other accounting matters which will require a substantial expenditure for accountant/investigators like Carmine Bellino and individuals working under his supervision. Accountants would provide in-depth analysis records obtained from Alyeska and the contractors to determine if the material accurately reflects decisions and payments made by both Alyeska and the contractors. While we cannot undertake an analysis of every cost item, we would attempt to review major cost issues with regard to certain contractors and sectors, particularly where they have been identified as the results of possible mismanagement or negligence.

In addition, I anticipate the need to obtain expert consultant help from engineers, chemists, soil experts, and others who could assist us in analyzing comparative cost data or similar construction efforts in different parts of the United States and the world. Engineering consultants and experts will also provide substantial assistance in identifying areas where different management decisions would have resulted in substantial cost savings for the construction costs.

A final figure of \$75,000 for investigators -- former IRS or FBI agents to conduct interviews both in Alaska and in different

parts of the United States to assist in the Phase II inquiry on determining the validity of costs of construction. These investigators would be expected to interrogate present and former employees of Alyeska, its contractors, and federal and state officials; prepare summary interview forms; and make recommendations on possible witnesses for public hearings for our final report. Such investigators would be expected to conduct and pursue leads which may be productive to the goals of the Alaska Pipeline Commission.

[* GS14 at Justice who has recently traveled to Alaska for U.S. government advises that U.S. government advises that U.S. government guideline is Alaska 125% of other states.]

JAY S. HAMMOND
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 16, 1977

The Honorable Steve Cowper
House Finance Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Cowper:

In light of the importance of an accurate determination of the actual and reasonable costs of construction of the trans-Alaska Pipeline (TAPS), I request that HB122 "An Act making a supplemental appropriation to the Alaska Pipeline Commission; and providing for an effective date", be amended to an appropriation of \$843,700 in general funds in place of the present \$500,000. Under AS 42.06, the Alaska Pipeline Commission is the appropriate agency to conduct this investigation. The Pipeline Commission has already entered into a contract with Mr. Terry Lenzner for investigation of TAPS under the authority of Revised Program 77-217 as endorsed by the Legislative Budget and Audit Committee. A supplemental appropriation for an additional contract is now needed to continue these efforts.

Mr. Lenzner's investigation will be a detailed and indepth study of the costs and management practices of Alyeska in constructing the trans-Alaska Pipeline. An investigation of this magnitude requires expertise in numerous areas as well as a large amount of time in collecting and analyzing the documents generated by the construction. Mr. Lenzner has agreed to head the investigation, including hiring, organizing, directing, and paying for the activities of the investigative staff, for an amount not to exceed \$806,000. Of this amount, \$645,700 still must be appropriated, and is included in the requested change. Although it is hoped that the investigation will be completed by July 1, 1977, the contract with Mr. Lenzner will probably state an ending date of September 1, 1977, to allow for unexpected developments.

Mr. Lenzner's report will not analyze the data for purposes of the Pipeline Commission's intrastate rate-making activities.

The Honorable Steve Cowper -2-

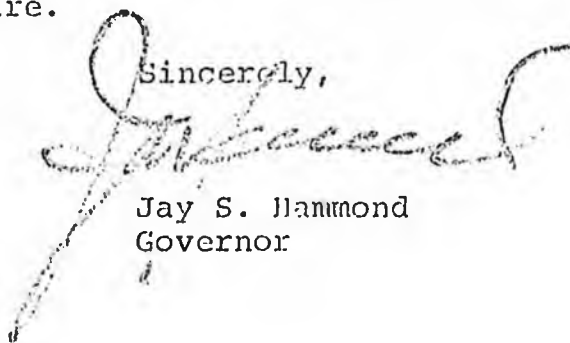
February 16, 1977

This analysis will be provided by Dr. Michael J. Ileo of Technical Associates, Inc., a Washington, D.C. based economic consulting firm. The cost of Dr. Ileo's activities is \$166,000, which sum is included in the requested supplemental appropriation.

Finally the Commission has requested \$21,000 for the hiring of a CPA auditor and engineer for its staff, for the period of April 1, 1977 through June 30, 1977, which amount is also included in the supplemental appropriation.

The Department of Commerce and the Alaska Pipeline Commission as well as the Department of Law are able to provide further verbal and written information regarding the supplemental should you so desire.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jay S. Hammond". The signature is written in dark ink and is positioned above the typed name and title.

Jay S. Hammond
Governor

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

The Honorable Steve Cowper -2-

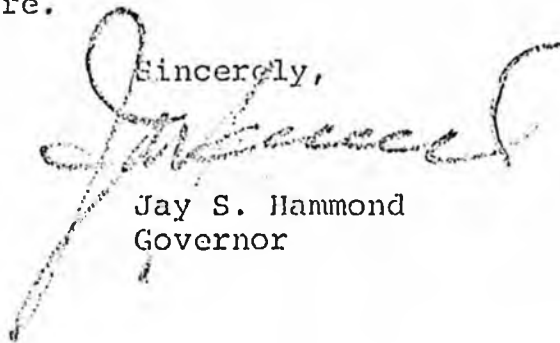
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Jay S. Hammond
Governor

STATE
of ALASKA

MEMORANDUM

TO: Representative Leo Schaeffer
Alaska State House of
Representatives

DATE: February 22, 1977

FILE NO:

TELEPHONE NO:

FROM: AVRUM M. GROSS
ATTORNEY GENERAL

SUBJECT: HB 122 - Pipeline
Commission Supplemental
Appropriation

By: *RM*
Robert Maynard
Assistant Attorney General

Attached is the available Juneau documentation with regard to the \$843,700 request. These documents are: 1) Present contract with Terry Lenzner; 2) breakdown of estimated investigation costs under proposed contract; 3) present contract with Technical Associates; and 4) proposal by Technical Associates.

There is no available Juneau documentation on the request for \$21,000 for a CPA auditor and engineer. If there are problems with any of the items, Commissioners Donohue and Breeze said that they would be available to testify if necessary.

RM/jec

Attachments

1 3. Notice. Any notice required to be made in
2 writing under the terms of this contract will be deemed to
3 be sufficient notice if it is a written notice transmitted
4 to the other party by certified mail addressed to the
5 residence or principal place of business of the party.

6 4. (a) Duties. Terry F. Lenzner, the special
7 counsel for the Alaska Pipeline Commission, will investigate
8 the costs and charges incurred by the Alyeska Pipeline
9 Service Company during the construction of the Trans-
10 Alaska Pipeline, employing such powers of the Pipeline
11 Commission established by statute and delegated to him by
12 the Alaska Pipeline Commission. The investigation will
13 commence with an analysis of the goals and possible
14 accomplishments of the investigations currently being
15 conducted by the Interstate Commerce Commission and the
16 General Accounting Office and an analysis of the data
17 supplied to the Commission by Alyeska Pipeline Company
18 obtained from other sources.

19 (b) Reports. Terry F. Lenzner,
20 special counsel, will, by May 1, 1977, prepare and
21 transmit to the Alaska Pipeline Commission (1) a report
22 which shall contain an analysis of the investigations
23 conducted by the General Accounting Office and the Interstate
24 Commerce Commission; (2) an analysis of those costs which
25 will not be extensively investigated by the two aforementioned
26 agencies; (3) a list of those areas which, in the opinion
27 of the special counsel, should be explored in greater
28 depth by the Alaska Pipeline Commission; (4) a proposed
29 plan of investigation which shall include an estimate
30 of the time, manpower and financial resources necessary
31 to complete the proposed plan of investigation.

32 (c) Obligations To The Commission. During
33 the course of his employment as special counsel,
34 Terry F. Lenzner agrees to devote a period of time

to the fulfillment of the aforementioned duties to complete his investigation within the contract period set forth herein.

1 5. Interim Reports. Terry F. Lenzner, while acting as
2 special counsel, shall maintain a daily time report showing the
3 number of hours spent on Pipeline Commission business and the
4 nature of that business. This report will be made available for
5 the inspection of the Pipeline Commission upon request. A report
6 will be transmitted to the Alaska Pipeline Commission on a monthly
7 basis showing in aggregate the hours expended on Commission
8 business. In addition, Terry F. Lenzner, special counsel, will,
9 together with the monthly time report to the Alaska Pipeline
10 Commission, and his monthly bill, submit an itemized record of
11 expenses incurred during the course of the month and a brief
12 narrative description of the activities done in that month.

13 6. Terry F. Lenzner, special counsel, will receive
14 \$150,000 for the reports required to be prepared for the Commis-
15 sion pursuant to the provisions of paragraph 4(b) of this agree-
16 ment. Twenty-five thousand dollars will be paid immediately after
17 the signing of this agreement. Twenty-five thousand dollars will
18 be paid on January 1, 1977, \$50,000 will be paid on February 1,
19 1977, and the final \$50,000 will be paid at the satisfactory
20 conclusion of the contract. If the contract is terminated for
21 any reason whatsoever before it is completely paid, work done
22 during a period for which the special counsel has not previously
23 been paid will be compensated on an hourly basis. Special
24 counsel will maintain records of the time expended by him or
25 those of his employ upon which such a determination can be reached.

26 7. Employees of the Special Counsel. Special counsel
27 shall notify the Commission when he employs other individuals,
28 professional or clerical, for the purpose of assisting him with
29 the investigation.

30 8. Relations Between the Parties. For the
31 purposes of this agreement, Terry F. Lenzner, special
32 counsel, will be considered as a member of the staff of

1 the Alaska Pipeline Commission. The report and preliminary
2 drafts of such reports prepared by Terry F. Lenzner, during
3 the course of his investigation, whether prepared by him
4 or any individual employed by him pursuant to the terms
5 of this contract, shall be considered to be the property
6 of the Alaska Pipeline Commission and shall be given to
7 the Commission upon the request of the Commission or at the
8 conclusion of this agreement.

9 9. Nondisclosure of Information. Terry F. Lenzner,
10 special counsel, agrees not to disclose nor to permit any
11 individual employed by him, pursuant to the terms of this
12 agreement, to disclose information obtained during the
13 course of the investigation without the express permission
14 of the Alaska Pipeline Commission except that the special
15 counsel may utilize information obtained during the
16 investigation in further inquiries.

17 10. Liability. Terry F. Lenzner, special
18 counsel, agrees to hold the State harmless for any
19 liability incurred by him or by any individual employed by
20 him during the life of this agreement pursuant to the
21 provisions of this agreement: including but not limited
22 to, liability for personal injuries, libel, and improper
23 disclosure of trade secrets or confidential information.

24 11. Remedy for Breach. In the event of a breach
25 of this contract, the parties may file suits in a
26 Superior Court within the State of Alaska for damages or
27 specific performance. Nothing contained in this agreement
28 shall be construed as a waiver of the sovereign immunity of
29 the State of Alaska from being sued in the courts of the
30 United States or of other states. Any disputes between
31 the parties shall be settled with reference to Alaska law.

32 12. Entire Agreement. This agreement is the
33 entire agreement between the parties. There are no
34 unintegrated oral agreements. This agreement may not be
changed *except in writing by agreement of the parties*

13/29

AMENDMENT ONE TO THE AGREEMENT BETWEEN
THE ALASKA PIPELINE COMMISSION AND TERRY F. LENZNER

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Paragraph 6 of the agreement is amended to read as follows:

Terry F. Lenzner, special counsel, will receive \$150,000 for the reports required to be prepared for the Commission pursuant to the provisions of paragraph 4(b) of this agreement. Twenty-five thousand dollars will be paid immediately after the signing of this agreement. Twenty-five thousand dollars will be paid on January 1, 1977, \$50,000 will be paid on February 1, 1977, and the final \$50,000 will be paid at the satisfactory conclusion of the contract. If the contract is terminated for any reason whatsoever before it is completely paid, work done during a period for which the special counsel has not previously been paid will be compensated on an hourly basis. Special counsel will maintain records of the time expended by him or those of his employ upon which such a determination can be reached.

DATED at Anchorage, Alaska, this 22nd day of December, 1976.

ALASKA PIPELINE COMMISSION

By: Harry J. Donahue
Chairman

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL
ANCHORAGE BRANCH
360 "K" ST., SUITE 105
ANCHORAGE, ALASKA 99501
PHONE: 272-1552

AUTHORITY TO ENTER CONTRACT NEGOTIATIONS

#3393

TO: Department of Administration

FROM: Dept. of Commerce & Econ. Dev. Harry J. Donahue
 (Department) (Name of Writer)

DATE: November 9, 1976

(This form must be executed prior to entering negotiations regarding personal services contracts, or negotiated contracts for other services, materials or goods, or construction, when the contract amount is for \$1,000 or more in an annual period.)

It is the intent of the Department of Commerce & Economic Development to negotiate a contract for the total amount of \$ 50,000.00 for the period November 17, 1976 to April 1, 1977. The contract may be described as follows: (check appropriate blank)

- () 1. Personal services contracts
- () 2. Negotiated contracts as follows:
 - () (a) goods or materials contracts
 - () (b) construction contracts
 - (X) (c) services contracts which may not be considered "personal services"

The contract is for the accomplishment of the following purpose(s):
to prepare a study determining the justness and reasonableness of
the rates to be charged for the transportation of oil and gas by
pipeline within the State of Alaska.

We intend to negotiate with the following persons or firms, listed in order of our preference:

1. Technical Associates, Inc.
2. _____
3. _____
4. _____

The concurrence of the Department of Administration is sought so that we may proceed.

CONCUR:

[Signature]
 Department of Administration

Date: 12/1/76



AGREEMENT BETWEEN THE ALASKA PIPELINE
COMMISSION AND TECHNICAL ASSOCIATES, INC.

WHEREAS, the Alaska Pipeline Commission is an independent regulatory agency created by the Legislature of the State of Alaska for the purpose of regulating the transportation of oil and gas by pipeline; and

WHEREAS, the Alaska Pipeline Commission, in furtherance of its statutory duties, has been charged with the responsibility of determining the justness and reasonableness of the rates to be charged for the transportation of oil and gas by pipeline within the State of Alaska; and

WHEREAS, it has been determined that this function can best be discharged, if the Commission has available to it expert advice with regard to the development of sound regulatory policies and practices; and

WHEREAS, Technical Associates, Inc., is a corporation engaged in the business of providing consulting, engineering and economic advice and which is both able and willing to prepare such a study for the Commission, the parties hereby agree as follows:

1. Period of Contract. That Technical Associates, Inc., will be employed as a consultant by the Alaska Pipeline Commission to prepare a study and report. The employment of Technical Associates, Inc., shall commence November 15, 1976 and last until April 1, 1977, at which time the final report of Technical Associates, Inc., shall be submitted to the Alaska Pipeline Commission.
2. Cancellation of Contract. This contract may be cancelled by the Alaska Pipeline Commission without cause on 30 days' notice, but Technical Associates, Inc., will be compensated for work performed up to the date of cancellation.
3. Duties. Technical Associates, Inc., shall study and report to the Alaska Pipeline Commission on those subjects

described in Phase 1, Tasks 1-7, as described in the Proposal to Develop Sound Regulatory Policies and Practices for the Regulation of Oil Pipelines in Alaska, submitted to the Alaska Pipeline Commission by Technical Associates, Inc., prepared by Technical Associates, Inc., on October 14, 1976. A listing of these topics can be found on pages 4 and 5 of the proposal referenced above and submitted by Technical Associates, Inc., to the Alaska Pipeline Commission.

4. Compensation. Technical Associates, Inc., will receive from the Alaska Pipeline Commission \$50,000 in compensation for the study to be performed pursuant to the terms of this contract. This amount includes all amounts necessary to be expended by Technical Associates, Inc., except for transportation and travel expenses for the purpose of carrying out the study pursuant to paragraph 3 above. Transportation and travel expenses will be reimbursed separately. Bills will be submitted monthly by Technical Associates, Inc., with a statement of work performed and expenses incurred.

5. Work Papers, Research Notes and Other Data. Work papers, research notes and other materials accumulated by Technical Associates, Inc., during the course of the study shall be considered to be the property of the Alaska Pipeline Commission. This property shall be turned over to the Alaska Pipeline Commission upon request of the Commission or at the conclusion of the study.

6. Nondisclosure of Information. Technical Associates, Inc., agrees not to disclose nor permit any individual employed by it pursuant to the terms of this agreement to disclose information obtained during the course of the study without the express permission of the Alaska Pipeline Commission.

7. Liability. Technical Associates agrees to hold the State harmless for any liability incurred by it or by any

individual employed by the corporation pursuant during the life of this agreement and pursuant to the provisions of this agreement, including but not limited to liability for personal injuries, libel and improper disclosure of trade secrets of confidential information.

8. Remedy for Breach. In the event of a breach of this contract, the parties may file suits in a Superior Court within the State of Alaska for damages or specific performance. Nothing contained in this agreement shall be construed as a waiver of the sovereign immunity of the State of Alaska from being used in the courts of the United States or of other states. Any dispute between the parties shall be settled with reference to Alaska law.

9. Entire Agreement. This agreement is the entire agreement between the parties. There are no unintegrated oral agreements. This agreement may not be changed orally, but only in writing, signed by the parties.

10. Nondiscrimination. Technical Associates, Inc., agrees that during the course of study it will comply with all applicable Federal and State laws prohibiting discrimination.

DATED this 20th day of December, 1976.

ALASKA PIPELINE COMMISSION

By: Harry J. Donahue
Harry J. Donahue, Chairman

DATED this 27th day of December, 1976.

TECHNICAL ASSOCIATES, INC.

By: Michael J. Ileo
Michael J. Ileo, President

Langhorne A. Motley
Langhorne A. Motley, Commissioner
Department of Commerce and Economic Development

Robert
Department of Administration

A PROPOSAL TO DEVELOP
SOUND REGULATORY POLICIES AND PRACTICES
FOR THE REGULATION OF OIL PIPELINES IN ALASKA

SUBMITTED TO
THE ALASKA PIPELINE COMMISSION

PREPARED BY
TECHNICAL ASSOCIATES, INCORPORATED
OCTOBER 14, 1976



TECHNICAL ASSOCIATES INCORPORATED

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A PROPOSAL TO DEVELOP
SOUND REGULATORY POLICIES AND PRACTICES
FOR THE REGULATION OF OIL PIPELINES IN ALASKA

I. INTRODUCTION, OVERVIEW AND STUDY OBJECTIVES

This proposal has been prepared by Technical Associates, Incorporated ("the Consultant") in response to a request of the Alaska Pipeline Commission ("the Commission"). The purpose of the proposal is to set forth the study design and estimated cost of performing a comparative analysis of public utility regulation, particularly oil pipeline regulation, so as to determine the policies and practices which should be employed by the Commission in regulating oil pipelines in accordance with its statutory responsibilities and the objectives of regulation.

The Commission is a newly created agency charged with the responsibility of regulating the rates and services of oil pipelines operating within its jurisdictional authority. Its principle function is to insure that an equitable balance is achieved between the private interests of pipelines and the public interest of consumers generally. To date, the Commission has not exercised its regulatory authority as to the proper and fair level of rates which

should be assigned to the oil pipeline services offered to the public. Nor has the Commission set forth its regulatory philosophy or the methods by which that philosophy is to be activated.

Although the Commission has regulatory authority over all oil pipelines operating in Alaska, the paramount concern currently and for the foreseeable future is the determination of the rates of charge to be permitted for the services to be offered by the Trans Alaska Pipeline which is being constructed by the Alyeska Pipeline Service Company. As the Commission has correctly recognized, the sheer size of this project coupled with the importance of oil to Alaska and the nation, makes it imperative that considerable care be taken in formulating regulatory policies and practices.

While the Commission is essentially free of regulatory precedence or case law, it is keenly aware of its obligation to carefully consider the theory of regulation, the objectives to be met through regulation, and the regulatory policies and practices which have evolved through the years in other regulatory jurisdictions and in other regulated industries. In regard to this latter point, the Commission is in a preferred position, for it will be able to mold a regulatory process free of the patch-work which has sometimes characterized regulation in other jurisdictions.

In order to develop sound regulatory policies and practices, the Commission recognizes that it must have before it all views as to what constitutes the proper regulation of oil pipelines. It must also be aware of the advantages and disadvantages of any particular policy or practice. And perhaps most importantly, the Commission must know which policy or practice best comports with the theory and objectives of regulation.

The Consultant proposes to meet these needs of the Commission by conducting a study which will set forth the theory of regulation and the economic objectives that must be achieved through a regulatory process; the policy and practices which have been offered and/or used to accomplish the objectives of regulation; an identification of the extent to which these policies and practices comply with the theory of regulation; recommendations as to the appropriate policies and practices which should be employed by the Commission; and an application of the recommended policies and practices to the Trans Alaska Pipeline.

The next section (Part II) of the proposal identifies the tasks which the Consultant will perform to meet the goals of the study. As indicated, the study will be bifurcated into a generic phase and a specific phase. The former (Phase I) will focus on the development of sound regulatory policies and practices. The latter

phase (Phase II) will involve an application of the policies and practices, as determined in Phase I, to the Trans Alaska Pipeline in order to actually determine the rates of charge. Phase II will also involve a determination of the rates of charge which would result if the oil pipeline regulatory practices of the Interstate Commerce Commission were used.

The final two sections of the proposal presents the management plan of the Consultant (Part III) and the estimated cost of performing the study (Part IV).

II. STATEMENT OF WORK

As indicated in Part I, the proposed study will contain two phases:

Phase I - a determination of the policies and practices which should be employed by the Commission in regulating Alaskan oil pipelines; and

Phase II - an application of the policies and practices recommended in Phase I to the Trans Alaska Pipeline to determine the rates to be charged for oil pipeline services.

The tasks within each phase are discussed in the following subsections.

A. Phase I¹

This phase of the study will focus on (1) the theory and objectives of regulation; (2) the overall cost of oil

¹The Consultant anticipates that Phase I will also involve presentation of the proposed study design in a hearing before the Commission on approximately December 1, 1976 involving Nikishka Pipeline.

pipeline service, consequent revenue requirement, and methods by which costs are appropriately determined; (3) the proper valuation of the rate base which is used and useful in providing oil pipeline services; (4) the fair rate of return to be permitted on the rate base; (5) the reasonableness of expenses incurred by oil pipelines; (6) the rate structure to be employed in pricing oil pipeline services; and (7) specialized accounting and/or regulatory practices.

Task A.1 will involve a review and analysis of relevant literature on the theory and objectives of regulation. The literature to be reviewed will include, but not be limited to, economic and technical treatises on the theory of regulation, legal articles and opinions relevant to regulatory pricing, and key regulatory decisions and orders. The purpose of Task A.1 is to establish the guidelines against which the appropriateness of any regulatory decision can be tested and to set forth the framework of sound regulatory policy.

Task A.2 will focus on the cost of service approach to the determination of revenue requirements. This approach defines the overall cost of service of a regulated company as the sum of: (a) operating expenses; (b) depreciation; (c) income taxes; and (d) a fair return on the net value of the assets (rate base) used in providing