

LEG. FINANCE - BILLS 1983 - 1984 1861A

SSHB 220

1861

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CS HB 220 (Fin)
Title: Relating to public utilities
Sponsor: Lindauer
Requestor: _____
Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce
Program Category Affected: APUC
BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		0				
200 TRAVEL		0				
300 CONTRACTUAL		0				
400 SUPPLIES		0				
500 EQUIPMENT		0				
600 LAND & STRUCTURES		0				
700 GRANTS, CLAIMS		0				
800 MISCELLANEOUS		0				
TOTAL OPERATING		0				
CAPITAL		0				
REVENUE		0				

FUNDING: (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS		0				
OTHER		0				
TOTAL		0				

POSITIONS:

FULL-TIME		0				
PART-TIME		0				
TEMPORARY		0				

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Al Adams, Chairman *ABA* Phone: 465-3706
Division: House Finance Committee Date: 4/10/84

Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

12/1/83

Original sponsor: Lindauer

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 220 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to public utilities; and providing
7 for an effective date."

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

9 * Section 1. AS 42.05.321(a) is repealed and reenacted to read:

10 (a) All rates demanded or received by a public utility, or by
11 any two or more public utilities jointly, for a service furnished or
12 to be furnished shall be just and reasonable. However, a rate may not
13 include an allowance for the costs of

14 (1) political contributions;

15 (2) lobbying;

16 (3) advertising and public relations, except for reasonable
17 amounts spent for

18 (A) energy conservation efforts;

19 (B) public information designed to promote more effi-
20 cient use of the utility's facilities or services or to protect
21 the physical plant of the utility;

22 (C) informing shareholders and members of a coopera-
23 tive of meetings of the utility and encouraging attendance; or

24 (D) emergency situations to the extent and under the
25 circumstances authorized by the commission for good cause shown;

26 (4) consulting, management, service, administrative, in-
27 spection, and audit fees in excess of \$1,000,000 paid during a finan-
28 cial year of a utility for services produced outside the geographical
29 area served by the utility, except when an inspection or audit paid

1 for by the utility verifies that the utility is unable to obtain such
2 services within the geographical area served by that utility;

3 (5) products purchased from the owner of the public utility
4 or from a subsidiary or affiliate of the owner, in excess of the
5 actual cost of the products to the owner, subsidiary or affiliate; or

6 (6) services purchased from the owner of the public utility
7 or from a subsidiary or affiliate of the owner at prices that exceed
8 the value of such services.

9 * Sec. 2. AS 42.05.381 is amended by adding new subsections to read:

10 (e) A rate demanded or received by a public utility for a ser-
11 vice that is provided for a profit may not include an allowance for a
12 rate of return on capital investments of the utility in excess of an
13 amount equal to the paid-in capital and retained earnings of the
14 utility less

15 (1) money provided or advanced by the utility to acquire
16 ownership of the utility;

17 (2) money provided by the utility for a loan, advance, or
18 deposit to an owner of the utility or to a subsidiary or affiliate of
19 the utility;

20 (3) money invested by the utility or a subsidiary or affil-
21 iate of the utility in a nonregulated company;

22 (4) money deposited or invested in a financial institution
23 located outside the state; and

24 (5) money or the value of other assets pledged or guaran-
25 teed on behalf of an owner, subsidiary, or affiliate of the utility.

26 (i) In establishing rates under this chapter the commission
27 shall consider the revenues and profits of a public utility derived
28 from operations in the state and shall consider the revenues and
29 profits of other businesses operated in the state that are owned by

1 the utility or a holding company, subsidiary, or affiliate of the
2 utility if the utility and its holding companies, subsidiaries or
3 affiliates have combined annual sales in excess of \$5,000,000. If a
4 nonutility company that operates in the state and is owned by a util-
5 ity operating in the state or a holding company, subsidiary, or affil-
6 iate of the utility, has annual sales in excess of \$1,000,000, 15
7 percent of the gross revenues of the nonutility is considered to be
8 utility revenue for the purpose of establishing utility rates.

9 * Sec. 3. AS 42.05.491 is amended to read:

10 Sec. 42.05.491. RECORDS AND ACCOUNTS TO BE KEPT IN STATE. A
11 public utility shall keep the books, accounts, papers and records
12 required by the commission, in an office within this state, and may
13 not remove them from the state, except upon the terms and conditions
14 that may be prescribed by the commission. The provisions of this
15 section do not apply to a public utility whose accounts are kept at
16 its principal place of business outside the state, in the manner
17 prescribed by a federal regulatory body; however, such a public util-
18 ity shall [AT ITS OPTION, EITHER] furnish to the commission, within a
19 reasonable time fixed by the commission, certified copies of its
20 books, accounts, papers and records relating to the business done by
21 the public utility within this state [, OR AGREE TO PAY THE ACTUAL
22 EXPENSES INCURRED BY THE COMMISSION IN SENDING PERSONNEL TO EXAMINE
23 THE UTILITY'S BOOKS AND RECORDS AT THE PLACE WHERE THEY ARE KEPT].

24 * Sec. 4. AS 42.05 is amended by adding a new section to read:

25 Sec. 42.05.655. INSPECTION JURISDICTION. The on-site inspection
26 jurisdiction of the commission is limited to areas within the state.

27 * Sec. 5. AS 42.05.720(4) is amended to read:

28 (4) "public utility" or "utility" includes every corpora-
29 tion (whether public, cooperative, or otherwise), company, individual,

1 or association of individuals, their lessees, trustees, or receivers
2 appointed by a court, that owns, operates, manages or controls any
3 plant, pipeline or system for

4 (A) furnishing, by generation, transmission or distribu-
5 tion, electrical service to the public for compensation;

6 (B) furnishing telecommunications service, except for
7 video entertainment service, to the public for compensation;

8 (C) furnishing water, steam, or sewer service to the
9 public for compensation;

10 (D) furnishing, by transmission or distribution, [OF]
11 natural or manufactured gas to the [ALASKA] public for compensa-
12 tion;

13 (E) refining, furnishing for distribution, or dis-
14 tributing [BY DISTRIBUTION] petroleum or petroleum products for
15 [TO] the [ALASKA] public for compensation when the consumer has
16 no alternative in the choice of supplier of a comparable product
17 and service at an equal or lesser price;

18 [(F) FURNISHING COLLECTION AND DISPOSAL SERVICE OF
19 GARBAGE, REFUSE, TRASH OR OTHER WASTE MATERIAL;]

20 * Sec. 6. AS 42.05.711(i) is repealed.

21 * Sec. 7. This Act takes effect July 1, 1984.

COMMITTEE REPORT

HOUSE

(11)

FURTHER:

3/16/84

Date: 4/10/84

The Committee on FINANCE has had SSHB 220

"An Act relating to public utilities; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with ~~CS~~ SSHB 220 (Fin) same title
 new title
- and recommends Individual Recommendations
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation Zero Fiscal Note Attached
New 4/10/84
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

Walt Farnace

Raymond

John

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Robert Adams - No Rec

J.P. Bettworth No Rec

T.H. Martin No Rec

Ben [unclear] (No Rec)

J. Duncan - DO NOT PASS

Fred T. Schmitt (No Rec)

John [unclear] (No Rec)

MILO H FRITZ (NO REC)

Robert Adams

CHAIRMAN

A M E N D M E N T

Offered in the HOUSE

By Lindauer

TO: SSB 220

Page 1, line 17, after "advertising" insert:

", except for advertising to promote energy conservation"

Page 2, after line 29, insert a new bill section to read:

"* Sec. 3. AS 42.05.491 is amended to read:

Sec. 42.05.491. RECORDS AND ACCOUNTS TO BE KEPT IN STATE. A public utility shall keep the books, accounts, papers and records required by the commission, in an office within this state, and may not remove them from the state, except upon the terms and conditions that may be prescribed by the commission. The provisions of this section do not apply to a public utility whose accounts are kept at its principal place of business outside the state, in the manner prescribed by a federal regulatory body; however, such a public utility shall [AT ITS OPTION, EITHER] furnish to the commission, within a reasonable time fixed by the commission, certified copies of its books, accounts, papers and records relating to the business done by the public utility within this state [, OR AGREE TO PAY THE ACTUAL EXPENSES INCURRED BY THE COMMISSION IN SENDING PERSONNEL TO EXAMINE THE UTILITY'S BOOKS AND RECORDS AT THE PLACE WHERE THEY ARE KEPT]."

Renumber succeeding bill sections accordingly.

NOTES TO DECISIONS

Applied in United States v. RCA No. 1647 (File No. 3772), 597 P.2d 489
 Alaska Communications, Inc., Sup. Ct. Op. (1979).

Collateral references. — Necessity of bound to render as common carrier, 19
 filing rates for services which carrier is not AIR 982.

Sec. 42.05.380. [Repealed, § 5 ch 113 SLA 1970.]

Sec. 42.05.381. Rates to be just and reasonable. (a) All rates demanded or received by a public utility, or by any two or more public utilities jointly, for a service furnished or to be furnished shall be just and reasonable; however, a rate may not include an allowance for costs of political contributions, or public relations except for reasonable amounts spent for

- (1) energy conservation efforts;
- (2) public information designed to promote more efficient use of the utility's facilities or services or to protect the physical plant of the utility;
- (3) informing shareholders and members of a cooperative of meetings of the utility and encouraging attendance; or
- (4) emergency situations to the extent and under the circumstances authorized by the commission for good cause shown.

(b) In establishing the revenue requirements of a municipally owned and operated utility the municipality is entitled to include a reasonable rate of return.

(c) A utility, whether subject to regulation by the commission or exempt from regulation, may not charge a fee for connection to, disconnection from, or transfer of services in an amount in excess of the actual cost to the utility of performing the service plus a profit at a reasonable percentage of that cost not to exceed the percentage established by the commission by regulation.

(d) A utility shall provide for a reduced fee or surcharge for standby water for fire protection systems approved under AS 18.70.081 which use hydraulic sprinklers. (§ 6 ch 113 SLA 1970; am § 1 ch 86 SLA 1976; am § 5 ch 106 SLA 1977; am § 4 ch 45 SLA 1980)

Effect of amendments. — The 1980 amendment added subsection (d).

§ 42.05.500 PUBLIC UTILITIES AND CARRIERS § 42.05.511

Sec. 42.05.500. [Repealed, § 5 ch 113 SLA 1970.]

Sec. 42.05.501. Inspection of books and records by commission. The commission shall at all reasonable times have access to, and may designate any of its employees, agents or consultants to inspect and examine, the accounts, records, books, maps, inventories, appraisals, valuations, or other reports and documents, kept by public utilities or their affiliated interests, or prepared or kept for them by others, which relate to any contract or transaction between them. The commission may require a public utility or its affiliated interest to file with the commission, copies of any or all of these accounts, records, books, maps, inventories, appraisals, valuations, or other reports and documents. (§ 6 ch 113 SLA 1970)

Collateral references. — 73 C.J.S.,
Public Utilities, § 54.

Sec. 42.05.510. [Repealed, § 5 ch 113 SLA 1970.]

Article 7. Financial and Management Regulation.

Section

- 511. Unreasonable management practices
- 521. Impaired capital
- 531. Distribution of surplus and profits

Sec. 42.05.511. Unreasonable management practices. (a) The commission may investigate the management of a public utility, including but not limited to staffing patterns, wage and salary scales and agreements, investment policies and practices, purchasing and payment arrangements with affiliated interests, for the purpose of determining inefficient or unreasonable practices which adversely affect the cost or quality of service of the public utility.

(b) Where unreasonable practices are found to exist, the commission may, after providing reasonable notice and opportunity for hearing, take appropriate action to protect the public from the inefficient or unreasonable practices and may order the public utility to take the corrective action the commission may require to achieve effective development and regulation of public utility services.

(c) In a rate proceeding the utility involved has the burden of proving that any written or unwritten contract or arrangement it may have with any of its affiliated interests for the furnishing of any services or for the purchase, sale, lease or exchange of any property is necessary and consistent with the public interest and that the payment made therefor, or consideration given, is reasonably based, in part, upon the submission of satisfactory proof as to the cost to the affiliated interest of furnishing the service or property and, in part, upon the estimated cost the utility would have incurred if it furnished the service or property with its own personnel and capital. (6 ch. 113 SLA 1970)

*service or property with its own personnel
and capital. (6 ch. 113 SLA 1970)*

exceeding \$100,000 shall keep continuing property records. (§ 6 ch 113 SLA 1970)

Sec. 42.05.470. [Repealed, § 5 ch 113 SLA 1970.]

Sec. 42.05.471. Depreciation rates, initial losses and accounts.

(a) To provide for the loss in service value of its property, not restored by current maintenance, every utility shall charge adequate, but not excessive, depreciation expense for each major class of utility property used and useful in serving the public. From time to time the commission shall determine the proper and adequate rates of depreciation for each major class of property of a public utility. The commission shall accept rates of depreciation and depreciation accounts prescribed and maintained under regulations of a federal agency or the terms of a bond ordinance. The commission shall determine and allow depreciation expense in fixing the rates, tolls and charges to be paid for the services of a public utility.

(b) The commission is not bound in rate proceedings to accept, as just and reasonable for rate-making purposes, estimates of annual or accrued depreciation established under the provisions of this section, or to allow annual or accrued depreciation on utility property directly or indirectly contributed by customers or others. (§ 6 ch 113 SLA 1970)

Sec. 42.05.480. [Repealed, § 5 ch 113 SLA 1970.]

Sec. 42.05.481. Subsidiary business accounts. A public utility engaged, directly or indirectly, in another business, including another utility business or a subsidiary business, shall keep separate accounts relating to that business. Except as the commission provides, property, expense or revenue used in or derived from that business may not be considered in establishing the rates and charges of the utility for its public services. (§ 6 ch 113 SLA 1970)

Sec. 42.05.490. [Repealed, § 5 ch 113 SLA 1970.]

Sec. 42.05.491. Records and accounts to be kept in state. A public utility shall keep the books, accounts, papers and records required by the commission, in an office within this state, and may not remove them from the state, except upon the terms and conditions that may be prescribed by the commission. The provisions of this section do not apply to a public utility whose accounts are kept at its principal place of business outside the state, in the manner prescribed by a federal regulatory body; however, such a public utility shall at its option, either furnish to the commission, within a reasonable time fixed by the commission, certified copies of its books, accounts, papers and records relating to the business done by the public utility within this state, or agree to pay the actual expenses incurred by the commission in sending personnel to examine the utility's books and records at the place where they are kept. (§ 6 ch 113 SLA 1970)

ae
5-8-109

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No.: SSHB 220
Title: relating to Public Utilities
Sponsor: Lindauer
Requestor: _____
Date of Request: _____

FISCAL DETAIL
Agency Affected: Commerce & Economic Development
Program Category Affected: _____
Protection
BRU, Program or Subprogram(s) Affected: _____
Alaska Public Utilities Commission

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
100 PERSONAL SERVICES		228.8	228.8	228.8	228.8	228.8
200 TRAVEL		10.0	5.3	5.6	6.0	6.3
300 CONTRACTUAL		80.0	50.0	50.0	50.0	50.0
400 SUPPLIES		2.0	2.1	2.2	2.4	2.5
500 EQUIPMENT		8.0	0.0	0.0	0.0	0.0
600 LAND & STRUCTURES		14.0	14.0	14.0	14.0	14.0
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		342.8	300.2	300.6	301.2	301.6

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		342.8	300.2	300.6	301.2	301.6
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		5.0	5.0	5.0	5.0	5.0
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: for Jack Farleigh *Challen* Phone: 276-6222
Division: Alaska Public Utilities Commission Date: _____

Approved by Commissioner: for Carolyn Guess *Challen* Date: 3/15/84
Agency: Alaska Public Utilities Commission

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Please deliver to Ken Johnson
House Labor & Commerce
Committee

Fiscal Note Analysis SSHB 220

Assumptions:

1. This bill could create significant new jurisdiction for the Alaska Public Utilities Commission.
2. The new jurisdiction is in an area of regulation for which the Commission has little or no expertise and will have to develop that expertise through the addition of staff and the training of that staff. It is assumed that the term distributing added to AS 42.05.720(4)(c) does not include retail sales.
3. Legal analysis suggests application of this legislation will create legal challenges.
4. Fiscal counter-effect of the deregulation of refuse utilities will be negligible when compared to the other jurisdictions which will be created as a result of passage of this bill.

Program Summary:

- A. Historical background and comparison of SSHB 220 with last session's HB 365.
 1. During the last legislative session HB 365 was introduced by Representative ~~Keponen~~ which specifically addressed the regulation of oil refineries. The Commission fiscal note concerning that bill stated that in order to accept this jurisdiction, the Commission would incur additional expenditures in operating categories 100 - 500. In addition, the Commission contacted the National Association of Regulatory Utility Commissioners and discovered that no other state commission regulates oil refineries as a utility.
 2. The broadness of SSHB 220, expands jurisdiction far beyond the regulation of oil refineries. Based on legal analysis, the Commission anticipates that this bill, if passed and made law, could result in much litigation concerning the scope and constitutionality of the expanded jurisdiction.

B. EXPENDITURE REQUIREMENTS

As in the fiscal note regarding HB 365, this bill would require that the Commission be provided with additional state expenditures. These requirements, and how they differ from last year's fiscal note related to HB 365 are listed below.

100 - Personal Services

Minimum needs have been addressed. Positions required are:

Technical: 1 Utility Engineer IV
 1 Utility Financial Analyst III

Support: 1 Consumer Protection Information Officer II
 1 Utility Tariff Analyst II
 1 Administrative Support Technician II

(There is no change in requirements above the level in the fiscal note accompanying HB 365.)

200 - Travel

Funds will be required for training travel and regulatory travel. Travel for FY 1985 is higher based on a one-time need for extensive training in order for the Commission to regulate the new jurisdictions.

300 - Contractual

Additional contractual funding will be needed to provide three items:

a. Funding for legal counsel to handle the litigation associated with the new APUC jurisdictions. As stated above, if passed, it is anticipated there will be much litigation concerning the constitutionality and scope of jurisdiction.

b. APUC staff does not have any experience or expertise in regulation of the additional jurisdictions. Therefore, it will be necessary to provide substantial training to the two technical positions created to handle the new jurisdiction. Existing staff and Commission members will also need some training in these areas in order to reach proper conclusions and decisions in the regulatory process.

c. Some computer software must be provided in order to put the additional jurisdictions into the APUC data base.

400 - Commodities

There will be a requirement for additional commodities for the new positions which will be established as a part of the new workload.

500 - Equipment

In addition to the equipment associated with the new employees, the Alaska Public Utilities Commission wishes to go

on record to stress the importance of the passage of its capital budget request for an expanded computer system within the APUC. (Copy is attached).

In last year's fiscal note re HB 365 the Commission had asked for additional funding to enhance its existing computer system. Since that time the situation has changed dramatically. Based on present and projected usage, the Commission and the Department of Administration Division of Data Processing, have recommended that the present system be replaced by a larger one. Those projections did not include the addition of such a broadly based jurisdiction as possible in this bill.

600 - LAND AND STRUCTURES

The Alaska Public Utilities Commission is already short of space in its present location. Additional personnel will require additional space.

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
(Assumption: program begins FY 85)						
-----100-----						
SAL & BENEFITS		Note: Figures for FY 85..FY89 do not include merit increases or any negotiated salary inc				
CP OFFICER, R 17A		\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00
CE IV, R 21C		\$60,041.00	\$60,041.00	\$60,041.00	\$60,041.00	\$60,041.00
UFA III, R 21A		\$56,741.00	\$56,741.00	\$56,741.00	\$56,741.00	\$56,741.00
UTA II, R 17A		\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00	\$43,242.00
AST II, R 8A		\$25,549.00	\$25,549.00	\$25,549.00	\$25,549.00	\$25,549.00
		-----\$228,815.00	-----\$228,815.00	-----\$228,815.00	-----\$228,815.00	-----\$228,815.00
-----200-----						
TRAVEL-TRNG		\$5,000.00	\$0.00	\$0.00	\$0.00	\$0.00
TRAVEL - OTHER		-----\$15,000.00	-----\$5,300.00	-----\$5,618.00	-----\$5,955.08	-----\$6,312.39
		\$10,000.00	\$5,300.00	\$5,618.00	\$5,955.08	\$6,312.39
-----300-----						
LEGAL COUNSEL		\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00
Add'l SOFTWARE		\$5,000.00	\$0.00	\$0.00	\$0.00	\$0.00
1st YR TRAINING		-----\$25,000.00	-----\$0.00	-----\$0.00	-----\$0.00	-----\$0.00
		\$80,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00
-----400-----						
5 pos times \$400		\$2,000.00 *	\$2,120.00 *	\$2,247.20 *	\$2,382.03 *	\$2,524.95
*=6% inflation fac						
-----500-----						
3 pos times \$1200		\$6,000.00	\$0.00	\$0.00	\$0.00	\$0.00
1 pos times \$1000		-----\$2,000.00	-----\$0.00	-----\$0.00	-----\$0.00	-----\$0.00
		\$8,000.00	\$0.00	\$0.00	\$0.00	\$0.00
-----600-----						
Add'l office		\$13,992.00	\$13,992.00	\$13,992.00	\$13,992.00	\$13,992.00
IP010125 SQ.FT.EA						
ISP6093 SQ.FT.EA						
EQ 583 SQ.FT						
TIMES \$2.00 TIMES						
12 MONTHS						
GRAND TOTAL		-----\$342,807.00	-----\$300,222.00	-----\$300,622.20	-----\$301,144.11	-----\$301,644.34

1.	POSITION TITLE (CONSUMER PROTECTION & INFORMATION OFFICER)				RANGE/STEP 17A	DARG. UNIT G	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER (NEW)	BRU PRIORITY 1	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE				AMOUNT					
	1		2		3					
	PERSONAL SERVICES									
5.	Salary		33084							
6.	Benefits		5402							
7.	Supplemental Benefits		2028							
8.	Fixed Benefits		2728							
9.	TOTAL PERSONAL SERVICES		01		43242					
10.	Travel		02		0					
11.	Contractual		03		0					
12.	Commodities		04		400					
13.	Equipment		05		2025					
14.	Other Office Space 125SQFT (P01) x 12 mo				3000					
15.	TOTAL COST @\$2.00 sq. ft.				48667					
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts 1002								
17.		G.F. Hatch 1003								
18.		General Funds 1004		48667						
19.		I-A Receipts 1005								
20.		Program Receipts 1028								
21.		Other								
FOR BSM USE ONLY										
NA KEY NUMBER										

The additional level of public contact which would result from this additional regulatory workload would require the addition of another Information Officer position. This level would provide an interim between the Consumer Protection Officer II lead position and the Consumer Protection entry level.

As with other sections, there is no further room for expansion of duties without an increase in personnel. In addition, there is no existing office space to house additional personnel.

13 REQUEST FOR
NEW POSITION

AGENCY ALASKA PUBLIC UTILITIES COMMISSION
 PROGRAM CONSUMER PROTECTION
 BRU ALASKA PUBLIC UTILITIES COMMISSION
 COMPONENT _____

Page 1 of 5
 Revised Date _____

FY 85

1.	POSITION TITLE Utility Engineer IV				RANGE/STEP 21c	BARG. UNIT G	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.				
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.						
3.	CONTINUATION LEVEL				JUSTIFICATION									
4.	TYPE OF EXPENDITURE				<p>Engineer would be involved in reviewing engineering requirements associated with refinery regulatory activities.</p> <p>Current engineering staff is not able to absorb any more functions. It is already working at capacity level.</p> <p>Because regulatory activity concerning refineries, etc. does not exist within this Commission nor any others, it will require much training in order for the Engineer to be able to review engineering requirements associated with these activities.</p> <p>Office space will be required because existing space is at maximum usage levels already.</p>									
	PERSONAL SERVICES													
5.	Salary	46560												
6.	Benefits	8203												
7.	Supplemental Benefits	2550												
8.	Fixed Benefits	2728												
9.	TOTAL PERSONAL SERVICES	01		60041										
10.	Travel	02		2500										
11.	Contractual	03		10000										
12.	Commodities	04		400										
13.	Equipment	05		2025										
14.	Other Office space 125 sq ft (P01) x 12 mo			3000										
15.	TOTAL COSI @\$2.00 sq.ft.			77966										
	RECEIPT CODE	FUNDING SOURCE												
16.		Federal Receipts 1002												
17.		G.F. Match 1003												
18.		General Funds 1004		77966										
19.		I-A Receipts 1005												
20.		Program Receipts 1028												
21.		Other												

FDR B&M USE ONLY
4A KEY NUMBER

13 REQUEST FOR
NEW POSITION

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT _____

FY 85

Page 2 of 5

Revised Date _____

1.	POSITION TITLE Utility Financial Analyst III			RANGE/STEP 21A	DARG. UNIT G	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.	
3.	CONFIRMATION LEVEL	ADDITION			JUSTIFICATION				
4.	TYPE OF EXPENDITURE			AMOUNT					
	1	2	3						
	PERSONAL SERVICES								
5.	Salary	43560							
6.	Benefits	8203							
7.	Supplemental Benefits	2028							
8.	Fixed Benefits	2728							
9.	TOTAL PERSONAL SERVICES	01	56741						
10.	Travel	02	2500						
11.	Contractual	03	10000						
12.	Commodities	04	400						
13.	Equipment	05	2025						
14.	Other Office space 125sq ft (P01) x 12 mo			3000					
15.	TOTAL COST @2.00 sq ft			74666					
	RECEIPT CODE	FUNDING SOURCE							
16.		Federal Receipts 1002							
17.		G.F. Match 1003							
18.		General Funds 1004		74666					
19.		I-A Receipts 1005							
20.		Program Receipts 1028							
21.		Other							
FOR BLM USE ONLY									
4A KEY NUMBER _____									

This position would provide audit of refinery records and all other regulatory activity associated with the scope of SSHB 220.

Current financial staff is not able to absorb any more functions and has, in the past, had to absorb a vacancy factor to help alleviate personnel services shortages resulting from budget cutbacks. Even if all positions were filled, workload is such that any additional activities cannot be handled by existing staff.

Because regulatory activity concerning refineries, etc. does not exist within this Commission nor any others, it will require much training in order for the Analyst to be able to provide the auditing background necessary for this activity.

Office space is not available for additional personnel and all new positions require that the Commission acquire more space.

13 REQUEST FOR
NEW POSITION

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT _____

FY 85

Page 3 of 5

Revised Date _____

1.	POSITION TITLE Utility Tariff Analyst II				RANGE/STEP 17A	BARC. UNIT G	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE			AMOUNT						
	1			7			3			
	PERSONAL SERVICES									
5.	Salary			33084						
6.	Benefits			5402						
7.	Supplemental Benefits			2028						
8.	Fixed Benefits			2728						
9.	TOTAL PERSONAL SERVICES			01			43242			
10.	Travel			02			0			
11.	Contractual			03			0			
12.	Commodities			04			400			
13.	Equipment			05			2025			
14.	Other: Office space 125sqft (POL) X 12 mo						3000			
15.	TOTAL COST x \$2.00 sq.ft.						48667			
	RECEIPT CODE		FUNDING SOURCE							
16.			Federal Receipts 1002							
17.			G.F. Hatch 1003							
18.			General Funds 1004			48667				
19.			I-A Receipts 1005							
20.			Program Receipts 1020							
21.			Other							
FOR B&M USE ONLY										
4A KEY NUMBER										

The addition of another full-time tariff analyst would be required to handle the tariff rate filings which would be a result of this additional regulatory function.

Tariff section is already functioning at capacity and is not able to absorb any further regulatory workload without the addition of another position at this level. In addition, there is no existing office space to house this position.

13 REQUEST FOR
NEW POSITION

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRU ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT _____

FY 85

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Revised Date _____

1.	POSITION TITLE ADMINISTRATIVE SUPPORT TECHNICIAN II			RANGE/STEP 8a	BARC. UNIT G	FORM 12 PAGE/LINE	COV.	APPRDV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER NEW	URU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT 7	LEC.	
3.	CONTINUATION LEVEL			ADDITION	JUSTIFICATION				
4.	TYPE OF EXPENDITURE			AMOUNT	<p>The administrative support level is already at over-capacity level and the operating budget for FY 1985 has requested the addition of administrative support personnel to provide adequate coverage for existing regulatory activity. The addition of any new regulatory activity necessitates the need for administrative support for that new activity.</p> <p>Because of the shortage of usable office space, any new positions require additional office space.</p>				
	PERSONAL SERVICES								
5.	Salary		18636						
6.	Benefits		3043						
7.	Supplemental Benefits		1142						
8.	Fixed Benefits		2728						
9.	TOTAL PERSONAL SERVICES	01		25549					
10.	Travel	02		0					
11.	Contractual	03		0					
12.	Commodities	04		400					
13.	Equipment	05		1200					
14.	Other Office Space 83 sq.ft (SP6) x 12mo			1992					
15.	TOTAL COST @\$2.00			29141					
	RECEIPT CODE	FUNDING SOURCE							
16.		Federal Receipts 1002							
17.		G.F. Match 1003							
18.		General Funds 1004		29141					
19.		I-A Receipts 1005							
20.		Program Receipts 1078							
21.		Other							

FOR BSM USE ONLY
4A KEY NUMBER

13 REQUEST FOR
NEW POSITION

AGENCY ALASKA PUBLIC UTILITIES COMMISSION

PROGRAM CONSUMER PROTECTION

BRII ALASKA PUBLIC UTILITIES COMMISSION

COMPONENT

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Revised Date

FY 85

Project Description and Justification Continued:

Corporation PDP 11/24 minicomputer in FY85 with one having far greater capacity and to expand the number of terminals. This will give most employees, including Commissioners, ready access to numerous data bases giving the status of utility operations and those of the agency itself, to specialized computational facilities for utility regulation, and to electronic drafting of documents. In addition, a large capacity computer is essential for the proper auditing of utilities, most of which maintain their financial and operations records in extensive computer files.

The plan also includes addition of graphics capabilities to the basic system in FY86. This should aid in the presentation of complex utility data to the public. Also in FY86, the Commission plans to begin computer integration of a proposed micrographics system. Filming and computer indexing of its documents onto microfiche will greatly reduce the effort needed to maintain over one million documents in order and ready for reference. In later years funds are requested for new or updated software, for a high volume automatic microfiche-to-paper printer and for automatic microfiche storage and retrieval equipment which will integrate hard copy information with the APUC central data base.

AGENCY Alaska Public Utilities Commission

CATEGORY Public Protection

PROGRAM Consumer Protection
Information Processing

TITLE System

CP-1
ADDITIONAL
EXPLANATION
FORM
41

Page 2 of 2
Revised Date

FY85

000026

TITLE		Alaska Public Utilities Commission Information Processing System						PRIORITY	1	OF	2
OPERATING	TOTAL PREVIOUS APPROPRIATIONS	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89				
100 PERSONAL SERVICES											
200 - 800 LINE ITEMS			33.0	56.1	50.0	50.0	50.0				
TOTAL			33.0	56.1	50.0	50.0	50.0				
1002 FEDERAL RECEIPTS											
1004 GENERAL FUNDS			*33.0	*56.1	*50.0	*50.0	*50.0				
OTHER FUNDS											
FULL-TIME POSITIONS											
CAPITAL	TOTAL										
1002 FEDERAL RECEIPTS											
1004 GENERAL FUNDS			345.4	154.8	23.4	91.0	80.0				
OTHER FUNDS											
REVENUE											

EXPLAIN PREVIOUS APPROPRIATIONS (GIVE SECTION, CHAPTER, SLA) AND ASSUMPTIONS FOR COST, FUNDING SOURCE, POSITION AND REVENUE ESTIMATES:

Operating funds in FY85 through FY89 include an estimate for hardware and software maintenance agreements along with a projection for professional data processing consulting services necessary to allow program conversions, maintenance and new program development. FY85's estimate is scaled down to reflect the initial acquisition and installation timeframe during which these costs will not be incurred. Estimates for FY87 and beyond are reduced to reflect completion of program conversions and a stabilization of expenses related to system maintenance and ongoing new program development.

*O & M expenses projected through FY89 very closely approximate current funding requirements for data processing support costs and do not represent a net increase in general fund obligation.

AGENCY Alaska Public Utilities Commission

CATEGORY Public Protection

PROGRAM Consumer Protection
Information Processing

PROJECT TITLE System

CP-2 CAPITAL PROJECT COSTS
FY 85

Page 1 of 2
Revised Date 11/4/83

RECEIVED
FY85
NOV 29 1983

000027 BUDGET REVIEW

Appropriation and Assumptions for Cost, Funding Source, Position and Revenue Estimates Continued:

Capital expenditures in FY85 provide for a substantial portion of new hardware and software acquisition and installation. FY86 expenditures include further development of APUC order indexing capabilities and implementation of the integrated micrographics system. These items along with estimates of capital expenditures in FY87 and beyond are explained more completely in the attached APUC 1983 computer plan.

AGENCY Alaska Public Utilities Commission

CATEGORY Public Protection

PROGRAM Consumer Protection
Information Processing

TITLE System

CP-2	ADDITIONAL EXPLANATION FORM
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41

Page 2	of 2
Revised Date	

FY85

00002E

STATE OF ALASKA

ALASKA PUBLIC UTILITIES COMMISSION
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

BILL SHEFFIELD, GOVERNOR

420 "L" STREET
SUITE 100
ANCHORAGE, ALASKA 99501
(907) 276-6222

January 24, 1984

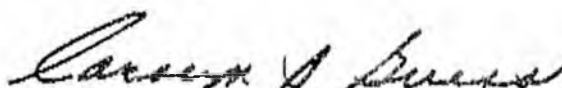
Representative John Cowdery, Chairman
Labor and Commerce Committee
State House of Representatives
Juneau, Alaska 99811

Attention: Ken Johnson

Dear Representative Cowdery:

For the reasons stated in the Commission's memorandum of March 15, 1983, regarding HB 220 and the attached analysis of SSHB 220 by Mark Figura, the Alaska Public Utilities Commission opposes the enactment of SSHB 220 because it is redundant, confiscatory, ambiguous, inconsistent, will require an expenditure of dollars that is unnecessary and legislation that is likely to create a multitude of litigation opportunities. The Commission concludes that based upon its initial and subsequent analysis, the proposed modifications to AS 42.05.381 contemplated in SSHB 220 are not in the public interest.

Sincerely,



Carolyn S. Guess
Chairman

Hearing: January 26, 1984
8:15 a.m.

Enclosure

Carolyn S. Guess, Chairman
Alaska Public Utilities Commission

January 20, 1984

276-3550

Norman C. Gorsuch
Attorney General

SSHB 220

By:

Mark L. Figura
Assistant Attorney General
Commercial Section-Anchorage

You asked me to comment upon sections 2 - 5 of the sponsor substitute for House Bill No. 220 introduced January 10, 1984, and referred to the Labor & Commerce and Finance committees. Section 1 of the bill is similar to last years version, upon which the Commission has already commented.

Section 2 of the bill is ambiguous, and it is difficult to determine the drafter's intent. This will of course pose serious interpretation problems should the bill be passed, and will no doubt lead to extensive litigation concerning the meaning of the legislation. My guess is that the drafter intended the following meaning for his proposed AS 42.05.381(e). The Commission is to determine the equity of the utility in the usual way, but reduce the equity figure if the sum of the utility's paid-in capital and retained earnings less the values of the first numbered paragraphs of proposed section 381(e), is less than the utility equity.

Paragraph 1 includes the purchase price of a utility which has changed ownership in the past. (However, paragraph 1 could well mean only the cash used for such a purpose, or what is commonly known as an "acquisition adjustment," the amount of the purchase price in excess of the seller's net book.) Paragraph 2 includes loans made by the utility to affiliated interests. Paragraph 3 includes equity held in (or perhaps the purchase price of) an unregulated company. Paragraph 4 includes deposits in financial institutions located outside the state of Alaska, and paragraph 5 includes assets used to secure loans to affiliated interests.

The obvious legal problem with the entire proposed section 381(e) is that it would result in confiscatory rates whenever it would have any effect. Rates are generally established by the Commission at the minimal level which will enable the utility to attract capital and continue to provide adequate service. To the extent that those rates would be decreased by proposed section 381(e), the decrease would be confiscatory.

Ms. Carolyn S. Guess, Chairman
Alaska Public Utilities Commission
In re: SSHB 220

January 20, 1984
Page 2

There are also a number of lesser problems with the proposed section. Proposed section 381(e)(1) is apparently aimed at the amounts that a utility may earn on plant purchased from another utility. AS 42.05.441(b) already deals with this problem, in a much more satisfactory way. Proposed section 381(e)(3) penalizes a utility for investing money in an unregulated company. The result of enacting such a provision would be to encourage companies to inflate the plant (and therefore the rate base) of the regulated utility.

Section 2 of the bill would also create a new section 381(f). I interpret proposed section 381(f) as requiring the Commission to decrease the revenue requirement of certain utilities by 15% of their gross in-state nonutility revenues. To the extent that any utility allowed proposed section 381(f) to apply, the application of this section would plainly be confiscatory. In addition, the passage of proposed section 381(f) would provide a strong disincentive to certain utilities and their affiliates to invest within the state of Alaska. Given the option of starting a business (such as a telephone equipment business) in Alaska or some other state, very few companies would choose Alaska if they be subject to a 15% tax on gross revenues on any Alaskan sales.

Section 3 of the bill would add a new section AS 42.05.655 providing that the on-site inspection jurisdiction of the Commission is limited to Alaska. The enactment of proposed section 655 would be inconsistent with AS 42.05.491, which specifically states that under certain circumstances utilities may keep records outside the state, if they agree to pay the actual expenses incurred by Commission personnel in making the out-of-state examination. Proposed section 655 would also allow utilities to avoid Commission oversight of affiliated interest transactions, merely by carrying on those transactions outside the boundaries of Alaska.

Section 4 of the bill proposes three changes in the definitions applicable in AS 42.05. The bill would delete both cable television service and waste disposal service from the services subject to public utility regulation. In addition, the bill proposes to delete the language added by ch. 36 SLA 1971 to AS 42.05.720(4)(e). The 1971 legislation limited the jurisdiction of the Commission over small petroleum fuel dealers. The purpose of the 1971 legislation was set out in the act as follows:

It is the finding of the legislature that it is necessary to avoid unnecessary regulatory procedures over petroleum dealers delivering to

Ms. Carolyn S. Guess, Chairman
Alaska Public Utilities Commission
In re: SSHB 220

January 20, 1984
Page 3

trailer courts and apartment buildings having local pipe distribution systems for heating fuel, and whose owners or residents have a choice of suppliers.

Apparently the intent of the bill is to reestablish Commission jurisdiction over small petroleum dealers serving trailer courts and apartment buildings. Absent complaints from these consumers, the legislation appears unnecessary.

Section 5 of the bill would repeal AS 42.05.711(i), consistent with the elimination of waste disposal from the definition of public utilities. Since the bill also eliminates cable television service, AS 42.05.711(k) should also be repealed.

MLF:cai

4

Alaska Telephone Association

201 E. 58th Avenue / Suite 320
Anchorage, Alaska 99502
(907) 563-4000

J. Clifton Eller
President

Gordon Parker
Executive Director

January 25, 1984

Hon. John Cowdery, Chairman
House Committee on Labor & Commerce
Pouch V
Juneau, Alaska 99811

ATTN: Ken Johnson

Dear Mr. Cowdery:

At the request of your staff and some members of your committee, I am writing in regards to HB220, "An Act Relating to Public Utilities." ATA opposes this legislation for the reasons outlined in the item by item analysis which follows.

(AS 42.05.381) Section 1. (a) (3) & (4): Current statutes place severe restrictions on advertising and public relations by regulated utilities. The language here is redundant.

(5): If the intent here is to reduce costs and the ultimate effect on the ratepayer, the actual result could be the opposite. At least four companies providing service in Alaska rely heavily on support, management and administrative services through parent companies located Outside. The net effect is that costs are lower due to avoidance of service duplication and lower costs Outside.

Additionally, a number of companies utilize consultants Outside. While we have some very qualified consultants in state, the language here would appear to preclude the companies from calling on the talents of some of the nation's leading talents.

(6) & (7): The apparent purpose of this language is already accomplished in AS42.05.511(c). The statute requires that a company purchasing products or services from an affiliate or subsidiary demonstrate to the APUC that the product or service can't be obtained elsewhere at a lower cost and that the purchase is based on the cost of the item to the affiliate or subsidiary. Current statutes do allow inclusion of a rate of return for the selling entity, a necessity if that entity is to remain in business.

Section 2. (e): The language here appears to exclude debt from the rate of return calculation. Rate of return has always been calculated on the total investment. A company must be allowed to recover interest costs through rate of return in order to finance construction.

(1): This language apparently refers to a double leverage situation in which a stockholder borrows money from the utility to buy more stock. No regulatory body would allow such an arrangement to be included in ratemaking.

Hon. John Cowdery
1/25/84
page 2

(2): This language would appear to penalize a company for establishing affiliates. The federal government is now urging companies to form affiliates to provide new technology (i.e., cable television) and acquiring affiliates for some traditional services (i.e., provision of terminal equipment). If this section is enacted, it simply means that an entity which may be the best provider of a service can't provide the service.

(3): This appears to duplicate (2) though specifying unregulated affiliates or subsidiaries. Again, for some services (i.e., terminal equipment) companies are now required by the FCC to establish unregulated subsidiaries, or at the least maintain separate accounts to guarantee no cross subsidy. An investment by a regulated company in a non-regulated subsidiary can not now be included in ratemaking. This is specified by the FCC and in AS42.05.481.

(4): There are clear constitutional questions involved in this requirement favoring Alaska banks. A company has the duty to its stockholders to place its funds in the financial institution offering the best return and treatment.

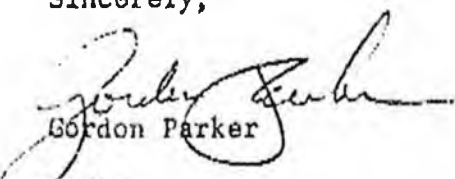
(5): It is normal business practice for a parent company to pledge its full faith and credit to guarantee loans to a subsidiary. In the case of a regulated company which must pay a loan on which a subsidiary has defaulted, such loss would not be allowed for ratemaking purposes. AS42.05.441 states that, in the case of a parent company operating more than one utility or unregulated subsidiary, a separation of property must be made among the different entities for ratemaking purposes.

(f): Both federal and state law (AS42.05.481) is clear that cross subsidy (i.e., subsidizing a non-regulated subsidiary through regulated rates) is not allowed. This language appears to require a reverse subsidy flowing from an unregulated subsidiary to a regulated parent. We believe there is a constitutional question to this requirement.

The second part of paragraph (c) does not take into account that a subsidiary may be losing money. We suggest that if it is fair to consider the revenues and profits of an unregulated subsidiary for ratemaking purposes, then it should also be fair to consider the costs and losses of the unregulated subsidiary.

I hope this information is helpful to the Committee. I am available to the Committee for questions.

Sincerely,


Gordon Parker

GP/jv

standards for a utility. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)
AS 42.05.151(a)
AS 42.05.711(d)

3 AAC 50.200. INDIVIDUAL ELECTRIC METERS. (a) Except as provided in (b) of this section, an electric utility shall install an individual meter to measure the energy consumption attributable to each residential and commercial unit in a multiple-occupancy building and each mobile home unit in a mobile home park if construction of the building or mobile home park was begun after December 31, 1982.

(b) Individual meters are not required

(1) for transient multiple-occupancy buildings and transient mobile home parks, including, but not limited to, hotels, motels, dormitories, rooming houses, hospitals, nursing homes, and mobile home parks for travel trailers;

(2) for commercial unit space which is subject to alteration with changes in tenants as evidenced by temporary construction or non-load-bearing walls or floors separating the commercial unit spaces;

(3) where alternative renewable energy resources are used in connection with central heating, ventilating, and air conditioning systems; and

(4) in common building areas such as hallways, elevators, reception areas, water pumping facilities, and electric hookups for motor vehicles.

(c) For the purpose of this section, construction begins when the footings are poured. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)
AS 42.05.151(a)
AS 42.05.291(c)

3 AAC 50.300. INFORMATION TO ELECTRIC CONSUMERS. (a) An electric utility shall provide to each new electric consumer, coincident with the application for service, a clear and concise explanation of any rate schedule in its currently effective tariff which applies to that consumer.

(b) Not later than 30 days after the filing of a tariff advice letter in which a change in a rate schedule is requested, an electric utility shall transmit to its affected consumers a clear and concise explanation of the proposed change. This provision does not apply to rate adjustments resulting from an automatic fuel-cost rate adjustment clause.

(c) At least once each year, an electric utility shall transmit to each of its electric consumers an informative summary of any rate schedule in its currently effective tariff which applies to those consumers.

(d) On request of an electric consumer, an electric utility shall transmit a clear and concise statement of the consumer's actual energy consumption and, if billed separately, power consumption for any billing period during the previous 12 months unless the information is not reasonably ascertainable by the utility. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)
AS 42.05.151(a)
AS 42.05.411(a)

3 AAC 50.400. Reserved

3 AAC 50.500. ADVERTISING. (a) In addition to the restrictions imposed under AS 42.05.381(a), neither an electric utility nor a gas utility may recover through rates any direct or indirect expenditure by the utility for promotional, political, or goodwill advertising.

(b) The commission will determine on a case-by-case basis whether the forms of advertising listed in (c)(3) of this section, as well as advertising not readily categorized as promotional, political, or goodwill, and any other form of advertising not covered by this section will be included in utility operating expenses for rate-making purposes.

(c) In this section

(1) "advertising" means the commercial use by a utility of any media, including newspaper, printed matter, radio, and television, in order to transmit a message to a substantial number of members of the public or to the utility's customers;

(2) "goodwill advertising" means advertising directed toward improving or enhancing the public image of a utility or its employees;

(3) "goodwill advertising," "political advertising," and "promotional advertising" do not include

(A) advertising which informs an electric or gas consumer about methods which conserve electric energy or gas or which reduce peak demand for electric energy or gas;

(B) advertising required by law or regulation, including advertising required under Part I, Title II of the National Energy Conservation Policy Act (42 USC § 8201 et seq.);

(C) advertising regarding service interruptions, safety measures, or emergency conditions;

(D) advertising concerning employment opportunities with a utility;

(E) advertising which promotes the use of energy-efficient appliances, equipment, or services;

(F) an explanation or justification of existing or proposed rate schedules or a notice of hearings concerning these rate schedules; and

(G) communications with members of a utility cooperative about the activities or internal affairs of the cooperative or which encourage or promote the participation of the members in the process of governing the cooperative;

(4) "political advertising" means advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to a controversial issue of public importance; and

(5) "promotional advertising" means advertising for the purpose of encouraging a person to select or use the service or additional service of a utility, or the selection or installation of an appliance or equipment designed to use the utility's service, except as provided in (3)(E) of this subsection. (Eff. 10/15/82, Reg. 84)

Authority: AS 42.05.141(a)(3)
AS 42.05.151(a)
AS 42.05.381

3 AAC 50.600. DEFINITIONS. Unless the context indicates otherwise, in 3 AAC 50.100 - 3 AAC 50.600

(1) "building" means a single erected structure, roofed and enclosed within exterior walls, built for permanent use, framed of component structural parts and unified in its entirety both physically and in operation for residential or commercial occupancy;

(2) "commercial unit" means that portion of a building or premises which is normally used for commercial purposes;

(3) "electric consumer" means a person or a public or private entity to which electric energy is sold, other than for purposes of resale, by a regulated public utility;

(4) "gas consumer" means a person or a public or private entity to which natural gas is sold, other than for purposes of resale by a public utility;

(5) "mobile home park" means a parcel of land which is used for the accommodation of occupied mobile homes;

(6) "multiple-occupancy building" means a building which is designed to house more than one residential or commercial unit;

(7) "rate" means

(A) a price, rate, charge, or classification made, demanded, observed, or received with respect to the sale of utility services to a utility consumer;

(B) a rule, regulation, condition, or practice respecting a rate, charge, or classification; and

(C) a contract pertaining to the sale of utility services to a utility consumer;

(8) "rate schedule" means the designation of the rates which an electric utility charges for electric energy; and

(9) "residential unit" means one or more rooms for use by one or more persons as a housekeeping unit which provides living,

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

January 23, 1984

SUBJECT: Sectional Analysis of SS HB 220

TO: House Labor and Commerce Committee

FROM: *LH* Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of SSHB 220, relating to public utilities, including a comparison of the original bill with the sponsor substitute.

In the sponsor substitute:

* Section 1 adds to the list of public utility costs that may not be included as elements of utility rate-setting. The current list of excluded costs is increased to take in all public relations, lobbying, advertising, certain fees paid, and certain products and services purchased from the owner or affiliate of a public utility.

* Section 2 adds two new subsections to AS 42.05.381, regarding utility rate-setting. The new subsection (e) excludes certain cost items related to return on capital from consideration in rate-setting for public utilities that are operated for profit. The new subsection (f) considers revenues and profits from businesses operated in the state that are owned by a utility or its affiliates, in establishing rates for services provided by the utilities.

* Section 3 limits the on-site inspection jurisdiction of the APUC to areas within the state.

* Section 4 amends the definition of "public utility" or "utility" to exclude cable television operators and waste material collection and disposal businesses from the jurisdiction of the APUC, and to include all refiners and distributors of petroleum in the state.

* Section 5 repeals a reference to waste collection and disposal businesses, because such businesses are removed from APCU jurisdiction by *Sec. 4.

House Labor and Commerce Committee
Page 2
January 23, 1984

* Section 6 sets a July 1, 1984 effective date.

A comparison to SSHB 220 to HB 220 is as follow:

In section 1 of SSHB 220 several changes have been made to the proposed amendment to AS 42.05.381(a). The subsection is the same in both versions through paragraph (4). Paragraph (5) of the sponsor substitute is less restrictive on fees incurred by utilities than is the original bill, and provides a more complex formula for determining those fees that are and are not allowable for purposes of rate setting by the APUC. Paragraph (6) of the substitute makes a technical change to the original bill. Paragraph (7) of the substitute is less restrictive for purposes of rate-setting, on allowable costs of services incurred by a utility.

Sections 2-6 of the sponsor substitute contain new material not found in the original bill.

LHA:ojb
J2/058

MEMORANDUM

State of Alaska

TO: Catherine Wallen
Legislative Liaison
Department of Commerce

DATE: March 15, 1983

FILE NO:

TELEPHONE NO:

FROM: Carolyn S. Guess, Chairman *CSG*
Alaska Public Utilities Commission

SUBJECT: House Bill 220
Senate Bill 140

Because there apparently are not Bill Analysis Forms available to us in Anchorage I am sending our comments on the proposed legislation in memo form. You may transfer our comments to the appropriate form and sign my name with your initials.

House Bill 220. There is no fiscal impact to the APUC.

Comments: House Bill 220 is redundant in part, unnecessary and could result in higher utility rates.

Section 1(a)(1)-(4) is addressed in 42.05.381(a). The Commission believes the exceptions found in 42.05.381(a)(1)-(4) are reasonable and is not aware of any reason to eliminate them.

Section 1(a)(5), a prohibition of consulting or management fees paid to the owner of a utility could affect a number of small utilities, i.e., Tanana Power Co., and Mukluk Telephone Co. where the owners are the salaried management of the utility.

In regard to Section 1(a)(6), AS 42.05.511(c) provides:

In a rate proceeding the utility involved has the burden of proving that any written or unwritten contract or arrangement it may have with any of its affiliated interests for the furnishing of any services or for the purchase, sale, lease or exchange of any property is necessary and consistent with the public interest and that the payment made therefor, or consideration given, is reasonably based, in part, upon the submission of satisfactory proof as to the cost of the affiliated interest of furnishing the service or property and, in part, upon the estimated cost the utility would have incurred if it furnished the service or property with its own personnel and capital.
(§ 6 ch 113 SLA 1970)

Therefore, the Commission believes this section of the proposed legislation is redundant and unnecessary.

In regard to Section 1(a)(7), the Commission does not understand what purpose this proposed section would serve and further believes it would create problems and possibly higher rates for utilities such as the Anchorage Municipal electric, telephone, water and sewer utilities which receives services from the Municipality of Anchorage i.e., data processing, legal services, etc.; privately owned utilities such as College Utilities (sewer and water) in Fairbanks. Juneau Douglas Telephone Company and Glacier State Telephone Company serving Kenai, Homer, Kodiak and North Pole could also be adversely affected.

In summary, the Commission does not believe that the public interest would be better served by the enactment of this legislation.

Senate Bill 140.

It would appear if the role of the APUC is limited to an oversight review of the regulations to be promulgated, there is no fiscal impact on the APUC.

Comments: The Commission is supportive of legislation that would result in lower utility rates for Alaskan utility consumers. The Commission observes that this legislation would only benefit consumers of electric utility cooperatives and regional electrical authorities. There are other kinds of utilities that have as much, if not more, need for the availability of low interest loans, specifically telephone, sewer, and water utilities. The Commission would recommend that consideration be given to broadening the kinds of utilities eligible to borrow long or short term monies from the State.

csg/dkd

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

ALASKA PUBLIC UTILITIES COMMISSION DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

420 "L" STREET
SUITE 100
ANCHORAGE, ALASKA 99501
(907) 276-6222

April 6, 1983

Representative Walt Furnace, Chairman
House Labor and Commerce
Pouch V
Juneau, Alaska 99811

Dear Representative Furnace:

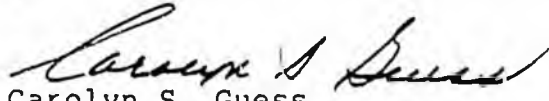
In response to your letter of March 28, 1983, concerning House Bill 220 I am enclosing relevant portions of our existing statute, AS 42.05.381(a) and AS 42.05.511(c) and a portion of our regulations 3 AAC 50.500 which is applicable to electric and gas utilities. The latter is the result of federal legislation which mandated specific consideration of the subject of advertising expenses of electric and gas utilities only.

I found it difficult to articulate in writing the deliberation process that the Commission undertakes when the costs enumerated in items 1 through 7, AS 42.05.381(a), are at issue before the Commission. Therefore you will also find portions of Commission orders in eight proceedings over the past six years where the subjects have been discussed. I have underlined the references to the sections of the statute and regs which are enclosed and believe that the Commission's review and assessment speak for themselves and support our initial position that the proposed legislation is redundant and unnecessary in part, and could result in higher rates to consumers through the foreclosure of the evaluation of the reasonableness of a specific component of a rate.

If there is additional information the Commission can provide, please do not hesitate to contact me at 263-2132.

Sincerely,

ALASKA PUBLIC UTILITIES COMMISSION


Carolyn S. Guess
Chairman

dkd

Enclosures

cc: C. Wallen

○ Alascom request for permanent rate increase

1 (3) amortization of rate case expense over a
2 number of years will eliminate or prevent
3 over recovery of a pro forma cost. (T-9,
4 p. 10)

5 DOD concurred with the Staff's recommendation, while ALSC
6 and AkPIRG argued that the amortization period should be at
7 least five years, or, alternatively, one-half of total rate
8 case expense should be amortized over five years and one-half
9 over ten years.

10 The Commission has previously articulated its
11 reservations with respect to expensing total rate case
12 expense on a current basis in U-76-6(4) and endorses the
13 applicability of that reasoning and decision to the instant
14 proceeding. Thus, the Commission believes that the three-
15 year amortization period proposed by Staff is appropriate
16 prior to consideration of adjusting the period to mitigate
17 the effects of rate case expenses which are excessive or
18 which produce administrative benefits beyond the scope of
19 the rate case. The Commission will increase the allowable
20 amortization period from three to five years to incorporate
21 these factors.

22 Advertising Expense

23 In pro forma Adjustment No. 35 Staff recommended
24 that the adjusted balance of Account 642, Advertising Expense,
25 be eliminated from cost of service and reclassified as a
26 stockholder expense. According to Staff, Alascom failed to
27 justify the reasonableness and propriety of its advertising
28 expenses under AS 42.05.381(a) which provides:

29 (a) All rates demanded or received by a
30 public utility, or by any two or more public
31 utilities jointly, for a service furnished or
32 to be furnished shall be just and reasonable.

1 However, no rate may include an allowance for
2 costs of political contributions, or public
3 relations except for reasonable amounts spent
4 for:

5 (1) energy conservation efforts;

6 (2) public information designed to
7 promote more efficient use of the
8 utility's facilities or services or
9 to protect the physical plant of the
10 utility;

11 (3) informing shareholders and
12 members of a cooperative of meetings
13 of the utility and encouraging
14 attendance; or

15 (4) emergency situations to the
16 extent and under the circumstances
17 authorized by the commission for
18 good cause shown.

19 The utility acknowledged under cross-examination
20 that none of its test year advertising expense had been
21 dedicated to the purposes prescribed in AS 42.05.381(a)(1), (3),
22 and (4). Alascom initially estimated that approximately
23 \$100,000 of its advertising budget had been dedicated to
24 promotion of efficient use and protection of facilities but
25 acknowledged that a complete review of advertising copy
26 would be necessary to verify this figure. (II Tr. 73-76)
27 Witness Holmstrom subsequently testified that \$209,000 of
28 the company's expense would be permissible under AS 42.05-
29 .381(a). (II Tr. 493)

30 Alascom opposed Staff's treatment of advertising
31 expense on several bases. First, the utility argued that
32 the statutory provision cited by Staff in support of its
33 position did not become effective until June 10, 1977.
34 Retroactive application would violate the utility's "con-
35 stitutionally protected right to a fair return on its property,
36 which includes the right to compensation for its operating

1 expenses which were legitimate and compensable when made."
2 (Alascom Operating Expenses and Revenues Brief, p. 34) It
3 was also inappropriate to assume that the company would not
4 have modified its test year advertising program to conform
5 to the statute were it in existence at the time, according
6 to Alascom. Staff countered the utility's argument with the
7 reminder that the issue before the Commission is establishing
8 rates for the future and that the utility had already recovered
9 its 1976 operating expenses. Staff also observed that the
10 company failed to provide evidence that its 1978 advertising
11 program had been modified in response to the 1977 amendment
12 to AS 42.05, as it indicated would have been the case were
13 the statutory change in effect prior to the test period.
14 ALSC and AkPIRG added that the modification in AS 42.05.381(a)
15 was a known and measurable change and must be considered in
16 setting rates for the future.

17 A second argument presented by Alascom against
18 Staff's reliance on AS 42.05.381(a) was that the statute did
19 not apply to advertising but rather was limited to political
20 contributions and public relations. In addition to relying
21 on a literal reading of the statute, the company pointed to
22 the legislative history of this amendment to support its
23 contention. Specifically, an earlier draft bill had enu-
24 merated "advertising, political or charitable contributions,
25 lobbying expenses, or public relations" which were subse-
26 quently foreshortened in the final version to only political
27 contributions or public relations. (Alascom Operating
28 Expenses and Revenues Brief, p. 35) This change reflected
29 the legislators' intent to permit utilities to recover
30

1 reasonable amounts expended for advertising, charitable
2 contributions, and lobbying, according to Alascom. Staff,
3 ALSC, and AkPIRG argued that advertising was subsumed within
4 public relations, and, thus, the legislative history cited
5 by the company could more properly be interpreted as a move
6 to eliminate unnecessary verbiage. The utility disagreed
7 with the presumption of these parties that advertising was
8 normally incorporated within the definition of public rela-
9 tions.

10 Third, the company noted that \$492,418 of its
11 \$929,994 test year charges to Account 642 were expenses
12 associated generally with the public affairs department
13 rather than specifically with advertising. It would be
14 improper, therefore, to eliminate this amount from cost of
15 service on the premise that it was advertising expense.
16 ALSC and AkPIRG argued that the non-advertising expenses in
17 Account 642 were related to public relations as defined by
18 Alascom and, thus, must be excluded from rates under AS
19 42.05.381(a), since the company had failed to establish
20 their legitimacy within statutory guidelines.

21 Fourth, the utility stated that other jurisdic-
22 tions have allowed advertising expense in cost of service
23 and, presumably, this Commission should follow a similar
24 course of action. Alascom identified three categories of
25 advertising: informational, promotional, and institutional.
26 According to the utility, informational advertising is
27 considered an allowable operating expense by "most commis-
28 sions"; promotional advertising by "many commissions"; and
29 insti tional advertising by "some commissions." (Alascom
30

1 Operating Expenses and Revenues Brief, pp. 37-38) In any
2 event, the company maintained that the advertising expenses
8 it incurred during the test period were reasonable, permis-
4 sible under the statute, and beneficial to the utility's
5 ratepayers. Staff maintained that the authorities cited by
6 Alascom provided less than unqualified support and, in any
7 event, were of questionable relevance given the existing
8 statutory guidance on this subject. Intervenors DOD, ALSC,
9 and AkPIRG argued that institutional advertising should not
10 be allowed because it provided a disproportionate benefit to
11 stockholders relative to ratepayers. Staff and intervenors
12 agreed that the burden resided with Alascom to demonstrate
13 that advertising expense provided tangible benefits to
14 ratepayers within the context of AS 42.05.381(a), including
15 matching advertising copy and allowable expenses. Apparently,
16 the advertising copy was neither audited by the utility nor
17 provided to the Staff for analysis as it requested.

18 Setting aside the scope and timing of the applicabil-
19 ity of AS 42.05.381(a), the Commission notes that a utility
20 has the burden of proof that expenses for advertising are
21 reasonable and proper in all respects. Thus, even advertising
22 that falls within one of the four permissible categories is
23 not exempted from this standard of review. A survey of
24 cases in other jurisdictions indicates that advertising
25 expense has frequently been disallowed when it does not
26 directly benefit ratepayers such as by reducing operating
27 costs or by providing more efficient service. (See, for
28 example, Re Promotional Practices of Electric Utilities, 8
29 PUR 4th 268 (Florida Public Service Commission, 1975); Re

1 Michigan Bell Telephone Company, 15 PUR 4th 209 (Michigan
2 Public Service Commission, 1976); Re Southern Union Gas
3 Company, 12 PUR 4th 219 (New Mexico Public Service Commis-
4 sion, 1975)) The Commission concurs with this approach to
5 determining the appropriateness of the amount expended for
6 advertising.

7 Advertising expense has long been a subject of
8 controversy in the regulatory arena, as have contributions,
9 lobbying, and public relations expenses. It is the Commis-
10 sion's belief that the Legislature intended to articulate a
11 policy with respect to all of these areas when it promulgated
12 the amendment to AS 42.05.381(a) governing political contri-
13 butions and public relations. However, assuming arguendo
14 that Alascom's interpretation of legislative history is
15 correct, the utility failed to provide sufficient proof in
16 the form of advertising copy or other documentation that
17 this expense provided direct benefits to the ratepayers and
18 was appropriately included in cost of service. With respect
19 to the non-advertising component of Account 642, which
20 clearly falls within the scope of "public relations" under
21 the statute, no evidence was provided by Alascom to demon-
22 strate that test year expenses were properly incorporated
23 within the four permissible categories or, in the alternative,
24 that 1978 expenses had been redirected in conformance with
25 applicable law.

26 For the above reasons, the Commission believes it
27 has no option but to adopt Staff's pro forma Adjustment
28 No. 35. In addition, the Commission places Alascom on
29 notice that it considers advertising expense, as well as
30

1 non-political contributions and lobbying expenses, to fall
2 within the purview of public relations in AS 42.05.381(a)
3 and will evaluate these expenses in that context in parti-
4 cular in future proceedings.

5 Contributions Expense

6 In its pro forma Adjustment No. 11, Staff reduced
7 total company commercial expenses by \$54,996 to eliminate
8 contributions and donations from cost of service. Staff
9 also recommended that these expenses be booked to Account
10 31.363, Miscellaneous Income Charges, as prescribed in the
11 FCC uniform system of accounts, instead of Account 31.642,
12 Advertising Expense. It was further suggested by Staff
13 that the utility be required to provide the requisite break-
14 down of expenses for gifts and donations on Schedule 43 of
15 FCC Form M.

16 Staff's proposed disallowance was based in part on
17 the philosophy "that such donations are made without the
18 ratepayers' knowledge or consent and therefore are properly
19 chargeable as a stockholder item." (Staff Brief and Argument:
20 Cost of Service Adjustments, p. 31) Staff also maintained
21 that insofar as contributions were a form of public relations,
22 AS 42.05.381(a) precluded their consideration in cost of
23 service.

24 The company opposed Staff's pro forma adjustment
25 for several reasons. First, Alascom had a responsibility as
26 a corporate citizen to participate in community causes
27 through some reasonable level of contributions. Second,
28 donations benefited the ratepayers by enhancing the overall
29 image of the company in the community. Third, the amounts

1 and variety of beneficiaries of test year contributions were
2 reasonable. Lastly, contributions have been recognized as a
3 legitimate operating expense in a number of jurisdictions.

4 The intervenors generally agreed with Staff's
5 position. DOD noted that:

6 The Federal Executive Agencies, as a ratepayer,
7 object to the diversion of federal tax dollars
8 intended to pay for service to serve to
9 enhance RCAA's corporate image. Such an
10 expenditure is clearly of greatest benefit to
11 the shareholder and should be borne by the
12 shareholder. (Brief of the Federal Executive
13 Agencies on the Operating Expenses and Revenue
14 Issues, p. 10)

15 After citing Alascom's threats to curtail contribu-
16 tions if disallowed by the Commission, ALSC and AkPIRG
17 observed that:

18 For all RCAA's protestations about its
19 responsibilities as a corporate citizen, it
20 appears to take these responsibilities seriously
21 and genuinely only when it is the ratepayers'
22 donation not RCAA's. (ALSC and AkPIRG Rate
23 Base, Operating Expenses and Revenues Brief,
24 p. 33)

25 The inclusion of contributions in allowable
26 operating expenses is a ratemaking issue which has been
27 exhaustively debated in other jurisdictions with resulting
28 decisions on both sides of the question. Thus, a determina-
29 tion turns largely on the ratemaking philosophy of the
30 Commission. Based on its review of the arguments presented
31 in this case and its knowledge of relevant commission and
32 court cases, the Commission concludes as a matter of policy
that contributions should not be permitted in cost of service.
The rationale underlying this position is aptly stated in
the following excerpts from decisions by other commissions:

33 Dues, as donations, and contributions, if included
34 as an expense for rate-making purposes, become

1 an involuntary levy on ratepayers, who, because
2 of the monopolistic nature of utility service,
3 are unable to obtain service from another
4 source and thereby avoid such a levy. Rate-
5 payers should be encouraged to contribute
6 directly to worthy causes and not involun-
7 tarily through an allowance in utility rates.
8 (Re Pacific Telephone & Telegraph Company,
9 53 PUR 3rd 513 at 586 (California Public Utilities
10 Commission, 1964))

6 *

*

*

7 The Commission, in its past orders for
8 applicant including the last electric rate case,
9 Case No. U-4174, adopted the staff's position
10 that to allow such contributions and dues would
11 constitute an involuntary contribution by rate-
12 payers to groups that they might not support if
13 given a choice and since applicant's stockholders
14 have the choice of which groups they wish to
15 support they should bear the cost of supporting
16 these groups. (Re Consumers Power Co., 3 PUR 4th
17 321 at 331 (Michigan Public Service Commission,
18 1974))

14 *

*

*

15 We have always rejected the inclusion of these
16 expenses in the cost of service and this position
17 was affirmed by the Iowa Supreme Court in Davenport
18 Water. Company asserts that making charitable con-
19 tributions in reasonable amounts are ordinary,
20 necessary, and appropriate costs of rendering
21 utility services. This argument necessarily
22 presumes that the building of goodwill in its
23 service area is necessary for a public utility.

20 While goodwill and a good public image may
21 be a necessary business expense for nonregulated
22 business, as we have said before, funds expended
23 by a regulated utility for the purpose of building
24 goodwill or public image are not necessary to the
25 utility nor the public and do not benefit the
26 ratepayer. This is not to say that the company
27 may not contribute to charity, only that such
28 contributions should come from the stockholder's
29 profit. Accordingly, we will exclude charitable
30 contributions from company's cost of service.
31 (Re Iowa Power and Light Company, 6 PUR 4th
32 446 at 453 (Iowa State Commerce Commission, 1974))

31 Guided by the reasoning and principles articulated
32 supra, the Commission adopts Staff's pro forma Adjustment
33 No. 11 excluding contributions from permissible operating

1 expenses. This conclusion is also consistent with the
2 spirit, if not the letter, of AS 42.05.381(a). Nonetheless,
3 the Commission's position would be the same even if a legal
4 interpretation of the scope of AS 42.05.381(a) contrary to
5 its own were upheld in the courts.

6 Lobbying Expense

7 In 1976, Alascom paid \$24,045 for the retainer and
8 expenses of a lobbyist to provide the following services:

9 (1) Keeping RCA Alascom informed of any and
10 all state/local government actions which have
11 or will have a bearing upon the business,
12 reputation, public image or the success of
13 the RCA Alascom enterprise in Alaska.

14 (2) Or, conversely, keeping state/local
15 government representatives, legislators,
16 committees, agencies informed of RCA
17 Alascom's activities.

18 (3) Advising and consulting with RCA Alascom
19 on matters arising out of Points 1 and 2.
20 (T-11, p. 18)

21 Staff recommended that this amount, which had been
22 booked to Account 31.661, Executive Department, be reclassi-
23 fied to Account 31.323, Miscellaneous Income Charges, and be
24 excluded from cost of service. The basis of Staff's pro
25 forma Adjustment No. 12 was that lobbying was a form of
26 public relations, and test year lobbying expenditures failed
27 to qualify for inclusion in rates under AS 42.05.381(a).
28 Staff also believed that "lobbying expenditures should be
29 disallowed generally as a matter of policy." (Staff Brief
30 and Argument: Cost of Service Adjustments, p. 33)

31 The company did not necessarily dispute Staff's
32 characterization of lobbying as a public relations function
but opposed Staff's proposed ratemaking treatment of this

1 expense. While acknowledging that lobbying had no immediate
2 impact on service, Alascom maintained that it was a legitimate
3 operating expense because it served to protect the ratepayer
4 from imposition of additional costs by government action,
5 for example, taxes. The utility also believed that incorpora-
6 tion of lobbying expense in rates was permitted by AS 42.05-
7 .381(a).

8 Intervenor DOD, ALSC, and AkPIRG supported
9 Staff's pro forma adjustment. ALSC and AkPIRG observed:

10 The lobbying expenditures were presumably
11 made to promote the corporate interests of
12 RCAA, perhaps to the benefit of the rate-
13 payer, perhaps at the ratepayer's expense,
14 but always in the stockholder's interest
15 [sic]. Without specific relationships in the
16 record between cost and benefit to the rate-
17 payer, the lobbying expense cannot be allowed.
18 The amount here is small but the precedent
19 dangerous. (ALSC and AkPIRG Rate Base,
20 Operating Expenses and Revenues Brief, p. 37)

21 Like contributions, this is an issue which has
22 been debated and variously decided in other jurisdictions
23 primarily on the basis of ratemaking policy. In consider-
24 ing this question the Commission finds the following discus-
25 sion on point:

26 Denying lobbying expenses as advanced by staff is
27 a matter of first impression for this commission.
28 We have examined the opinions of several commis-
29 sions of our sister states and have come to the
30 conclusion that the bitter [sic] policy is to be
31 to eliminate these expenses in order to maintain
32 public confidence. See Re Lincoln Teleph. &
Teleg. Co. (Kan. 1975) 12 PUR 4th 79, 83. Some
commissions such as the Maine Public Utilities
Commission have taken the position that lobbying
expenses should be disallowed without question.
Re Central Maine Power Co. (Me 1972). Docket F. C.
No. 1954, and Re New England Teleph. & Teleg.
Co. (Me 1974) 5 PUR 4th 387. Other commissions
lean towards disallowance in the absence of a
showing by the utility that the expenditures
benefit its customers as distinguished from its
investors. Re New England Teleph. & Teleg. Co.

1 (Mass 1975) 11 PUR 4th 297, 305. On balance we
2 find that a compelling reason for not allowing
3 lobbying expenses as a charge to operations is
4 that the customers are not given an opportunity
5 either to advocate or to decide which legislation
6 should be supported or worked against. A similar
7 decision was made by the Illinois Commerce Com-
8 mission in the case of Illinois Bell Teleph. Co.
9 v. Illinois Commerce Commission (1973) 55 Ill 2d
461, 3 PUR 4th 36, 303 NE 2d 364. Our decision does
not abrogate the right of the applicant to engage
in lobbying activities, but we believe that the
proper allocation of its costs should be that to
the investor rather than to the ratepayer.
(Re Southwestern Bell Telephone Company, 19 PUR
4th, 1, 27-28 (Kansas State Corporation Commission,
1977))

10 For the reasons delineated by the Kansas and other
11 commissions and absent a clear showing of demonstrable bene-
12 fits to ratepayers, the Commission finds that lobbying
13 expense is not a proper component of cost of service. In
14 addition to the principle involved, it is also reasonable to
15 conclude that lobbying expense is precluded from consideration
16 in rates by AS 42.05.381(a).

17 Continuing Property Records Expense

18 Staff has proposed two pro forma adjustments to
19 costs associated with the company's CPRs, one of which has
20 apparently been superseded by Staff's final argument on its
21 third additional issue, reasonableness of CPR development costs.

22 Staff Adjustment No. 10 reduced Account 662,
23 Accounting Department, by \$72,857:

24 ... to eliminate from the Company's cost of
25 service an abnormal, non-recurring item which
26 was charged to expense during the test year.
27 The expense relates to special services
28 provided by an outside consultant with respect
29 to Continuing Property Records (CPR) and the
30 accounts payable system. Because those services
should not be expected to be recurring, the
expense should be eliminated in order to
prevent an over-recovery. (T-11, p. 18)

Alascom request for permanent rate increase

Affiliated Interest Expenses

1 At the time of the filing of TA112-98, Alascom,
2 formerly RCA Alaska Communications, Inc. was a wholly-owned
3 subsidiary of RCA Corporation (RCA). The utility was sub-
4 sequently purchased by PACOM, Inc., a wholly-owned subsidiary
5 of Pacific Power & Light company. (U-79-11(4)) One of the
6 conditions attached to the Commission's approval of the
7 acquisition of Alascom by PACOM, Inc. was that the utility
8 would continue to be treated as if it were a subsidiary of
9 RCA for the purposes of analyzing and determining Docket
10 U-78-4. (U-78-4(13))

11
12 During the test period there were several financial
13 transactions between Alascom and its then corporate family.
14 AS 42.05.511(c) governs the Commission's assessment of the
15 reasonableness and propriety of such expenditures. It
16 provides:

17 In a rate proceeding, the utility involved has the
18 burden of proving that any written or unwritten
19 contract or arrangement it may have with any of
20 its affiliated interests for the furnishing of any
21 services or for the purchase, sale, lease or
22 exchange of any property is necessary and con-
23 sistent with the public interest and that the
24 payment made therefor, or consideration given, is
25 reasonably based, in part, upon the submission of
26 satisfactory proof as to the cost to the affiliated
27 interest of furnishing the service or property
28 and, in part, upon the estimated cost the utility
29 would have incurred if it furnished the service or
30 property with its own personnel and capital.

31 The affiliated interest transactions which follow will be
32 evaluated under this statutory standard.

(a) General Services Agreement

33 Alascom entered a General Services Agreement with
34 RCA, effective September 1, 1979, for the acquisition of
35 expertise and services in a number of areas, including the

1 to be offered or provided. For the years 1976 and
2 1977, special surveys and analyses were conducted
3 after year end to determine that the amount of
4 assessments was not disproportionate to the level
5 of corporate effort expended on Alascom. Commenc-
6 ing in 1978 and continuing thereafter, a detailed
7 survey of corporate staff departments will be made
8 at the end of each year and the assessment to
9 Alascom will be adjusted in the final accounting
10 closing in January to the exact cost of corporate
11 staff effort determined to have been expended on
12 Alascom's behalf.

13 * * *

14 To the greatest extent possible, these amounts are
15 determined from official time or expense records
16 maintained by the Corporation. For example, in
17 the case of research and development projects by
18 the corporate research laboratories on behalf of
19 RCA Alascom, individual project logs are main-
20 tained, much like a "job order" system, recording
21 labor, material and other costs associated with
22 each project. In certain departments such as
23 auditing and law, detailed time records are
24 maintained by each professional. In other areas,
25 employee expense reports or invoices provide a
26 source of information as to time and efforts spent
27 on Alascom matters. However, there are also
28 departments within corporate staff where detailed
29 records are not maintained, or where the division
30 or level of effort cannot be easily determined but
31 which nonetheless represent costs properly borne
32 by Alascom. In these instances, an apportionment
of costs is made among all of RCA's subsidiaries
and divisions benefiting from that staff effort.
(T-5, pp. 3-5)

During the 1976 test year \$1,314,961 was booked to
Account 674, General Services and Licenses, for the amount
paid RCA. This amount has also been used by Alascom for the
purpose of computing its revenue requirement. Witness
Butler presented the results of a study initiated by RCA in
February, 1977, which indicated that services in the amount
of \$1,177,600 were provided to Alascom in 1976. In addition,
RCA was advised by RCA Globcom that the latter had provided
services in the amount of \$351,200 to Alascom in 1976, for a
total of \$1,528,800 worth of services under the respective
service agreements. The results of RCA's analyses were

1 following: finance and accounting; auditing; taxes; manage-
2 ment information systems and services; legal matters; industrial
3 relations; insurance, pensions, and benefits; marketing;
4 corporate administration; and research and technical services.
5 (T-6, Schedule MEH-13) This contract superseded a similar
6 agreement with RCA Global Communications, Inc. (RCA Globcom),
7 governing the period prior to Alascom's divestiture from
8 that RCA subsidiary. (T-6 Schedule MEH-11)

9 Under the terms of its contract with RCA Globcom
10 Alascom paid charges equivalent to 1 1/2 percent of its
11 annual gross operating revenues for the services provided by
12 RCA Globcom. The new agreement with RCA fixed the management
13 fee for 1976 at \$1,315,000 of which \$1,051,000 was paid to
14 RCA Globcom for services rendered from January 1 through
15 August 31, 1976, and \$264,000 to RCA for services provided
16 from September 1 through December 31, 1976. Beginning
17 January 1, 1977, the utility would pay RCA a fair and reason-
18 able amount based on estimates of the services to be performed
19 subject to annual review of the charges and inspection of
20 RCA documentation of costs and cost allocations. Alascom and
21 RCA had agreed to a 1977 estimate of \$1,700,000.

22 The mechanics of past and prospective determinations
23 of the management fee were described in additional detail in
24 the prefiled testimony of Alascom witness Robert C. Butler,
25 Vice President and Controller of RCA, as follows:

26 The amount RCA Alascom is assessed annually represents
27 the best estimate of the costs incurred by RCA
28 Corporation in providing services to RCA Alascom.
29 As I indicated earlier, this estimate is developed
30 in the middle of each year for inclusion in Alascom's
Business Plan for the succeeding year. The estimate
is based on past experience and factored for
inflation and any known changes in the services

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1 attached as Schedule RCB-1 to T-10 and are reproduced, as
2 corrected, as Appendix II to this Order. Work papers
3 supporting the study were submitted during the hearing and
4 attached to Butler's testimony. Butler was subjected to
5 exhaustive and detailed cross-examination with respect to
6 this documentation. (11 Tr. 887-986)

7 In addition, Alascom independently evaluated the
8 costs of certain services received from RCA for the express
9 purpose of demonstrating that:

10 ... the Corporate Assessment (\$1,315,000) is
11 reasonable with respect to the most appropriate
12 of the following standards:

- 12 1) What it would cost Alascom to
13 perform the same services without
the aid of RCA.
- 14 2) What it would cost Alascom to
15 purchase the services through a
third party.
- 16 3) What expenses Alascom would have
17 incurred if it were publicly held
corporation. (Exhibit 12, p. 2)

18
19 The utility's in-house study examined services provided in
20 the following categories: accounting and forecasting,
21 auditing, capital projects, treasury, financial analyses,
22 communications group staff, industrial relations, and cor-
23 porate expense. The company was charged \$509,940 for these
24 services, although their value to Alascom was estimated at
25 approximately \$660,755. Applying this relationship to the
26 balance of services not studied resulted in an estimated
27 valuation of total services from RCA in excess of \$1.5
28 million. Thus, the utility's study concluded that, "it is
29 clear that the value of the services provided to Alascom by
30 RCA exceeds the amount assessed." (Exhibit 12, p. 14)

1 Based on the detailed analysis performed by the
2 utility and its parent, Alascom contended that the \$1.3 mil-
3 lion management fee to RCA included in test year operating
4 expenses was a reasonable and proper amount. The utility
5 also maintained that "the charge in the test year for the
6 services of RCA Corporation is a reasonable charge in light
7 of the standard industry wide techniques of assessing such
8 charges," i.e. on a formula basis such as a percentage of
9 annual gross revenues. (II Tr. 240) Thus, Alascom asserted
10 that it had met its burden of proof under AS 42.05.511(c)
11 that the services were necessary and desirable and the
12 charges incurred for those services reasonable.

13 In its pre-filed testimony Staff specifically
14 questioned charges incurred for auditing services, com-
15 munications group staff, and capital projects but did not
16 propose any cost of service adjustments. However, in its
17 brief in the operating expense segment of this proceeding
18 Staff argued that the utility had failed to prove both that
19 the services received from RCA were necessary and that the
20 amounts paid for those services were just and reasonable
21 under AS 42.05.511(c). Staff pointedly rejected any attempt
22 by Alascom to support its position by relying on formulas
23 used and approved in other jurisdictions on the basis that
24 affiliated interest charges must be cost justified under
25 applicable Alaska law.

26 Staff concluded that the utility's evidence was
27 particularly deficient in a number of areas. As a result,
28 Staff recommended the following disallowances to the total
29 corporate assessment paid RCA reducing it from \$1,314,961 to
30 \$756,394.

1 First, no documentation had been provided to
2 support the \$351,200 in services allegedly provided by RCA
3 Globcom during 1976, and thus, no amount in excess of the
4 \$1,177,600 included in Butler's survey should be considered
5 in cost of service, according to Staff.

6 Second, Staff reduced engineering service charges
7 by \$29,656 for consulting services broadly related to Alaskan
8 telecommunications and by \$56,506 for an Alascom planning
9 model. The supporting memo described the consulting services
10 as "a catch-all task to cover the effort required in maintain-
11 ing liaison with the communication group of RCA businesses
12 in defining R&D tasks to be undertaken at Princeton." (T-10,
13 Schedule RCB-1 Supporting Data, p. 3) Staff maintained that
14 this explanation failed to substantiate that the expenditure
15 was used and useful in providing service to the public and,
16 if anything, demonstrated that the task benefited the corpo-
17 rate family more than it did Alascom. Staff rejected the
18 amount expended for the company planning model because
19 neither the supporting information nor the utility's witnesses
20 were able to provide an explanation of the purposes for or
21 uses of the model.

22 Third, Staff proposed that the \$20,200 expenses
23 associated with the Frequency Bureau be eliminated from the
24 management fee. The Frequency Bureau is the Washington,
25 D.C. office of RCA which interfaces with the FCC. In February
26 of 1977, Alascom opened its own office in Washington, D.C. and
27 discontinued its use of the Frequency Bureau at least in part
28 because of a determination that it would be cheaper to provide
29 these services directly. The utility acknowledged that it was

1 no longer using or being charged for the Frequency Bureau
2 and agreed that this amount should be eliminated from cost
3 of service as a known and measurable change. Although the
4 proper accounting treatment for this amount was not at
5 issue, Staff recommended that Alascom be required to submit
6 cost justification for opening its Washington, D.C. office
7 and to disclose these amounts in the future on Schedule 43
8 of Form M filed with the FCC.

9 Fourth, communications group staff expenses of
10 \$196,200 were eliminated from the corporate management fee
11 by Staff on the basis that the 26,000 man-hours assigned to
12 Alascom were unsupported. Staff further noted:

13 ... not one word appears to describe the
14 services rendered or give any indication as
15 to how these services were used and useful in
16 providing utility service to the public.
17 (Staff Brief and Argument: Cost of Service
18 Adjustments, p. 107)

19 Staff specifically objected to two subcomponents of this
20 expense, \$62,698 for 440 hours expended by RCA Executive
21 Vice President H.R. Hawkins and \$37,938 contributed to
22 moving expenses, as being unsubstantiated and possibly
23 duplicative, respectively.

24 Fifth, Staff proposed that the levy associated
25 with community relations/publications/communications ser-
26 vices be reduced by \$21,600. Staff maintained that com-
27 munity relations expense of \$260,000 was superfluous given
28 the substantial amount already incorporated in the utility's
29 operating expenses for this purpose. Alascom's share of
30 RCA's corporate annual report of \$19,000 was also removed by
31 Staff on the basis that no proof was tendered that the
32

1 company could not have provided this service at more reasonable
2 costs using in-house personnel.

3 Sixth, Staff eliminated the charges for executive
4 management/corporate administration of \$97,000. This repre-
5 sented Alascom's share of 1/20 of the total cost of the
6 chief executive officer. Staff maintained that the rate-
7 payers were already paying a sufficient amount for the
8 business judgment of its own executive management and within
9 the context of the other services provided by RCA. Thus,
10 "Absent specific and concrete instances of unique business
11 judgments exercised by Executive Management, the line should
12 be drawn to exclude further exactions from the consumers for
13 apparently duplicative services of doubtful value." (Staff
14 Brief and Argument: Cost of Service Adjustments, p. 110)

15 The resultant allowable management charge of
16 \$756,394 could probably be reduced further, according to
17 Staff. However, the utility's proof was more compelling for
18 other components of the corporate assessment, and Staff
19 acknowledged that some amount was properly includable in
20 cost of service.

21 Finally, Staff proposed that responsibility for
22 the amount remaining of \$756,394 be apportioned 2/3 to
23 Alascom and 1/3 to RCA in recognition of the mutual and
24 respective benefits accruing to the utility and its share-
25 holder from the services provided. The resultant operating
26 expense for corporate management services proposed by Staff
27 was \$504,288.

28 The intervenors also raised questions with respect
29 to whether Alascom had satisfied its burden of proof on
30 amounts paid to its parent. GOT maintained that the utility

1 failed to comply with the requirement in AS 42.05.511(c)
2 that the affiliated interest expense be justified relative
3 to costs the utility would have incurred if it had furnished
4 the services with its own personnel and capital. (Brief of,
5 the Office Of Telecommunications Regarding Operating Expenses,
6 p. 1) ALSC and AkPIRG basically agreed with this criticism
7 and specifically rejected efforts to satisfy this requirement
8 by estimating costs that would have been incurred if Alascom
9 were a publicly held corporation. They considered this
10 frame of reference to be speculative and irrelevant. (ALSC
11 and AkPIRG Rate Base, Operating Expenses and Revenues Brief,
12 p. 39)

13 ALSC and AkPIRG raised two general objections to
14 the management fee proposed by Alascom. First, they main-
15 tained that inadequate substantiation of this expense was
16 presented by Alascom. "For many categories the claim for
17 inclusion of a charge is marred because the supporting data
18 is absent, incomplete, or confusing. In others there is no
19 testimony, confusing testimony or lack of a knowledgeable
20 witness. Some services were not described beyond the most
21 general of titles." (Id., p. 40)

22 A second issue, according to ALSC and AkPIRG, was
23 the propriety of including certain expenses, for example,
24 nonrecurring or unusual items, arbitrary allocations of
25 charges based on a corporate-wide allocation percentage,
26 duplicative services, and services providing mutuality of
27 benefit.

28 As a result, these intervenors generally concurred
29 with Staff's recommended disallowances and also questioned
30 inclusion of the following: all research and development;

1 \$84,600 for accounting and forecasting; some portion of the
2 \$42,700 for capital projects and analyses; treasury department
3 charges; \$30,500 for financial analyses; \$8,015 for tax
4 affairs; some portion of the \$35,060 in industrial relations
5 charges; and \$11,106 for the facilities, architecture,
6 construction, and materials department. The principal
7 problem with respect to all of those expenditures was a lack
8 of sufficient substantiation thus making it "very difficult
9 to determine what is a fair and reasonable charge." (Id.,
10 p. 48) However, the ALSC and AkPIRG brief was inconclusive
11 with respect to what ratemaking treatment should be applied
12 to the questionable expense categories cited.

13 The Commission recognizes and accepts that some
14 management fee for services provided Alascom by RCA is
15 appropriate in the utility's cost of service. At the same
16 time, the Commission concurs with Staff and intervenors that
17 the supporting data provided by Alascom to justify this
18 expense is deficient in many respects in complying with AS
19 42.05.511(c). This may be due in part to RCA's lack of
20 familiarity with the burden of proof requirements that are
21 inherent to the regulatory process, a problem which should
22 not recur under Alascom's new owner. Setting aside the
23 issue of shared benefits, the Commission believes that
24 Staff's proposed reduction in RCA Management Services expense
25 to \$756,394 represents a reasonable balance between disallow-
26 ances necessitated by the inadequacy of the utility's substan-
27 tiation and recognition of reasonable payments for necessary
28 services provided by RCA. Some of the questions raised by
29 ALSC and AkPIRG also appear valid but lack the specificity
30 required for ratemaking consideration. The question of

1 further adjusting this amount to reflect mutuality of benefit
2 between parent and subsidiary will be deferred to a subsequent
3 proceeding. Staff's proposed treatment in this regard
4 raises questions of regulatory policy which have not been
5 adequately debated on the record in this Docket.

6 (b) Management Incentive Plan

7 The second affiliated interest transaction involves
8 payments made by Alascom to RCA for participation in the
9 Management Incentive Plan (MIP). During 1976, Account 661,
10 Executive Department, included \$192,388 for this expense.

11 The MIP is a corporate-wide plan of RCA designed
12 to attract and retain top management personnel and to reward
13 executives for their contributions to the financial success
14 of the operations of RCA and its subsidiaries. (T-11, pp.
15 14-15) The MIP is administered by a RCA committee which
16 determines the funds available to each company for disburse-
17 ment to eligible employees based primarily on the financial
18 performance of the operating companies. To fund the plan
19 Alascom accrued an amount monthly based on a projection by
20 RCA of the amount it would approve at the end of the year.
21 Distributions from the fund were made on an annual basis.
22 After RCA established the total amount available, Alascom
23 then determined the apportionment of this amount among
24 eligible employees. The top ten executives of the company,
25 i.e., those persons reporting to the president or executive
26 vice president, received the largest share of the MIP fund.
27 MIP awards could be paid on an installment basis and, at the
28 discretion of RCA, could be available in stock or stock
29 options in lieu of cash. Amounts awarded but subsequently
30 forfeited by employees terminating their employment with

1 Alascom before receiving deferred payments reverted to RCA.
2 (II Tr. 157)

3 In addition, a portion of the MIP fund was set
4 aside for distribution among all other salaried employees.
5 In 1976, the maximum award for employees in this category
6 was \$1,500 payable in full on a current basis, and a total
7 of \$30,000 was paid out to approximately 50 employees of the
8 utility.

9 In its testimony in this segment of the proceeding
10 Staff presented several arguments for and against inclusion
11 of the MIP expenses in cost of service without offering a
12 definitive recommendation in this regard. Arguments in
13 favor included the inherent attractiveness of additional
14 compensation to top executives; the incentive to continuity
15 and tenure provided by forfeiture of accrued deferred benefits
16 upon termination of employment; and lack of management
17 control over the total amount awarded under the MIP. Arguments
18 presented in opposition to this expense were the adequacy of
19 base compensation to officers and key employees; possible
20 inducement to seek excessive rate relief; and possible
21 annual variations in the expense beyond the control of the
22 utility's management.

23 During the hearings Staff queried utility witness
24 Holmstrom at length about the operation of the MIP and its
25 propriety as an expense for ratemaking purposes. Holmstrom
26 maintained that the ratepayers benefited from payments under
27 the MIP because it enabled the company to attract and retain
28 competent executives. Furthermore, the plan was comparable
29 to those offered in similarly situated companies.

1 However, "Based on its review of Holmstrom's
2 testimony," Staff concluded in its brief that "the record
3 clearly mandates disallowance of these MIP amounts" (Staff
4 Brief and Argument: Cost of Service Adjustments, p. 98)
5 Staff argued that the utility had failed to prove that the
6 MIP or some similar inducement was necessary to maintain
7 continuity of management. In addition, even if the required
8 proof had been forthcoming, it would be necessary to justify
9 assumption of this expense by the ratepayers rather than the
10 shareholder. As an alternative to total disallowance, Staff
11 recommended that the expense be equally and jointly shared
12 by the ratepayers and shareholder.

13 The Commission finds that the expense of the MIP
14 should be excluded from cost of service in the instant
15 proceeding. The principal reason for this decision is that
16 Alascom failed to address and meet the burden of proof
17 requirements of AS 42.05.511(c) for substantiating this
18 affiliated interest expense. Another key consideration is
19 that the plan has failed to fulfill its stated purpose as
20 evidenced by the history of short tenure by employees in key
21 executive positions. (II Tr. 138-147) In addition, the MIP
22 raises a number of other regulatory policy issues which are
23 not satisfactorily discussed or resolved in this case and
24 which may be moot under the new ownership arrangement,
25 including RCA control of distribution of funds and proper
26 accounting of funds which revert to RCA. Accordingly, the
27 Commission will not categorically reject the use of MIP but
28 will require the utility to provide a detailed explanation
29 and justification of inclusion of the expense of such a
30

1 program in its revenue requirement in any subsequent rate
2 proceeding in which it is proposed.

3 (c) Miscellaneous

4 The remaining affiliated interest transactions
5 have either been resolved or are not at issue.

6 First, Alascom paid RCA Americom for transponders
7 leased on the latter's satellite. The amount paid was
8 prescribed by a tariff filed with the FCC, and its treatment
9 in cost of service has previously been addressed in this
10 Order.

11 Second, the utility purchased inventory from RCA
12 for a company store which retailed the parent corporation's
13 products, for example, televisions. During the test period
14 the total amount expended for this purpose was \$37,300,
15 which was not included in Alascom's cost of service.

16 Third, RCA made automobiles available to a number
17 of the officers of the utility, including the president,
18 executive vice-president, and vice presidents of operations,
19 finance, industrial relations, and general counsel. No
20 charge was specifically assessed for these vehicles by RCA.

21 Cash Working Capital Allowance

22 AS 42.05.441(b) provides for inclusion in rate
23 base of a reasonable allowance for cash working capital when
24 required. The utility and Staff used different methods to
25 compute cash working capital with conflicting results.

26 Alascom applied the rule-of-thumb or formula
27 approach and proposed a cash working capital allowance
28 equivalent to 45 days or 1/8 of total annual cash operating
29 expenses, excluding interest and income taxes. The

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Gordon J. Zerbetz, Chairman
 Marvin R. Weatherly
 Carolyn S. Guess
 Susan M. Knowles

In the Matter of the Reasonableness and)
Propriety of the Interfund Charges Borne)
by the MUNICIPALITY OF ANCHORAGE Tele-)
phone, Electric, Water and Sewer Util-)
ities)

U-76-26

ORDER NO. 2.

ORDER APPROVING INTERFUND METHODOLOGY

On May 3, 1976, the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT (ML&P), ANCHORAGE TELEPHONE UTILITY (ATU) and the ANCHORAGE WATER UTILITY (AWU) was advised of the information to be provided with the Commission at a public hearing on June 1, 1976, for the purpose of determining the justness and reasonableness of the interfund charges paid to various departments within the Municipality by the above named utilities. The burden of proof that the interfund charges paid by ATU, ML&P and AWU were based on reasonable methodology and accurate allocation factors under the affiliated interest transactions as stated in AS 42.05.511(c) was to be borne by the Municipality.

JURISDICTION

The Municipality asserted, prior to the examination of the interfund charges, its belief that the affiliated interest section of the statute, AS 42.05.511(c), did not specifically affect the Municipality whose departments

provide services to the utilities. It was argued that no profit is to be earned by the Municipality through the interfund charges; there is no majority shareholder as in a private corporation; and the interfund charges must be approved through the budgetary process by the appropriate legislative body. The staff of the Commission contended that the Municipality does fall under the provisions of the statute by providing services to and receiving payment from each of the subject utilities and that the Municipality should bear the burden of proof that these charges are just and reasonable. The Commission concurs with the staff's position.

GENERAL BACKGROUND

The government entity which provided services to the above named utilities in 1974, 1975 and for the first nine months of 1976 is conceptually a different entity than is in existence today and on which the proposed 1976 budget of the Municipality is based. For the purpose of this proceeding the test year under consideration was 1975. The charges to the utilities in that year, by the providing departments of the Municipality, were used to ascertain the reasonableness and accuracy of the allocations of interfund charges. These charges were budgeted in 1974 for 1975 under the existing City of Anchorage government. The test year 1975 was used because of the permanent rate requests by ATU, ML&P and AWU pending before this Commission. For the most part, their request is based on this test year. In addition, the fact that the unified government, known today as the Municipality of Anchorage, has been in existence a relatively

short time, the workload of various departments has changed substantially, and the new government is in effect in a transitory state, make an examination of the budgeted 1976 interfund charges inappropriate at this time.

The testimony of the Municipality strongly recommended that a re-evaluation of the methodology of determining interfund charges and of the appropriateness of the existing allocation factors was of paramount importance for the 1977 fiscal budget of the Municipality. Every department should be analyzed as a result of the unification of the former City of Anchorage and the Greater Anchorage Area Borough now known as the Municipality of Anchorage. Various functions and responsibilities within some departments of the new Municipality have undergone major changes. These changes have affected the kinds of services provided as well as the methods used for allocating costs for services to any or all of the utilities.

The need for a study which would thoroughly review each department within the Municipality and examine the interfund procedure has been addressed by Arthur Young and Company in the course of a data processing study.

In light of unification, examination of services which might better be performed outside the Municipality through the contracting procedure should be made. There appear to be three possible courses of action for the utilities regarding the purchase of services from within the Municipality. One, the interfund charges could continue to be handled in the same manner as previously done by the City. This would require that the methodology and allocation

factors be updated in terms of a unified government. Two, the utilities could provide some or all of the services to themselves that are now being provided by the Municipality. Three, there could be services that should be contracted outside the Municipality. In addition, the subject of the appropriateness of interfund charges for the sewer utility should be addressed. If the refuse service provided by the former City of Anchorage comes under the jurisdiction of this Commission, interfund charges to that utility must also be examined.

For the purpose of this hearing the Municipality defined interfund as a charge by one department within the municipal government (whether the former City of Anchorage or the present Municipality of Anchorage) to another department within the government for services performed. The Municipality submitted Exhibits 1 and 2 which provided the budgeted and actual amount of interfund charges to ATU, ML&P, AWU and the general government unit (which includes those departments receiving monies from the general fund) and the total amount of all budgeted and actual interfund charges for the years 1974 and 1975. Exhibit 3 provided the budgeted interfund charges for the year 1976. The Uniform System of Accounts has been used since 1973 for the preparation of the 1974, 1975 and 1976 budget.

The budgetary process includes input from the supervisory personnel within each department, the review of the City Budget Officer (now the Chief of Management Services for the Municipality in the Office of Budget and Management), any refinement or change to be made by the

Office of the City Manager (now by the Office of the Mayor) and submission to the City Council (now the Municipal Assembly) for its approval. The implementation of methodology and allocation factors regarding interfund charges are based on the approved budget document for the appropriate fiscal year.

It should be noted that the interfund charges were a subject of audit by the external auditor hired by the governmental body. The appropriateness of ATU's interfund charges was also reviewed by RCA Alaska Communications, Inc., in its determination of the separation and distribution of toll revenues. In addition, the State performed auditing functions for particular grant money that the Municipal government receives.

During the hearing there was testimony that in some instances charges are made to each of the utilities by a department not listed on Exhibits 1 through 3. For example, a service provided a utility by the Department of Public Works at the request of the utility is paid for by a transfer of equity in the cash pool. A reimbursable work order form, Exhibit 29, illustrates the procedure to be utilized in this regard. Bills for services provided by the utilities to other departments within the government are also paid by a transfer of equity in the cash pool.

In Order No. 1 the Commission required the Municipality to provide a copy of any written instructions to the appropriate person within each department calculating the interfund charges. Exhibit 27, Interfund Criteria Information, was provided as well as Exhibit 28, a copy of the 1975

annual budget which explained the "charges to others" within each department. The individual computing the budgeted and actual interfund charges and the methodology and allocation factors for those charges were provided in Exhibits 4 through 25 as required by Order No. 1. Also included in these exhibits were comparable charges, where available, and time sheets and other recordkeeping data, when used.

The Commission commends the Municipality on the thoroughness of its prefiled testimony and the presentations made by the witnesses during the hearing and will discuss each department providing services to any or all of the subject utilities in 1975. For the purpose of this discussion reference will be made to the titles of individuals and the governmental unit based on the former City of Anchorage. Where appropriate, reference will be made to the existing municipal government. It is the intention of the Commission that this discussion may be beneficial to those individuals who will review and study the interfunded services and charges in the new unified government.

The transfer of interfund charges is done monthly on the basis of the actual costs to the providing department. Any end of the year adjustments either upward or downward are made in accordance with the allocation factors outlined within each department. Reference has been made to final charges in some of the exhibits for the 1975 test year. Generally speaking, these refer to charges incurred by departments as a result of unification, and these charges were not interfunded to the utilities.

MAYOR AND CITY COUNCIL

The method for calculating the budgeted interfund charges from the Mayor and City Council to each of the subject utilities was developed by the City Budget Officer in 1972. His judgment based on observation of work sessions and City Council meetings was used to apportion the workload of the Mayor and City Council into the following categories:

Agenda relating items	50%
Personnel functions	20%
Maintenance and operations budget	15%
Capital improvement program	15%

Within these categories of workload the City Budget Officer established the allocation factors for each utility on an annual basis.

The City Budget Officer analyzed the final agendas of 8 City Council meetings in different months of 1974 to establish the percentage of agenda items relating to each utility. The charges to each utility for the workload of Mayor and City Council relating to personnel functions were expressed as a percentage of the projected authorized positions for each utility in relation to the total authorized positions for the City. The charges for the maintenance and operations budget and for the capital improvement program were expressed as a percentage of each utility's budget in relation to the entire maintenance and operation budget and capital improvement program for the City. These percentages were weighted and applied to the actual 1975 expense of this department by the Controller Division.

In addition, each utility was charged \$600 as its cost for the expenses of its advisory board. These

lay boards met monthly, and their members were paid a small stipend. The determination of these charges was made by taking the total amount of monies expended to the City boards and commissions and dividing it by 20. (There were 20 advisory boards.)

This department has undergone substantial change as a result of unification, and Exhibit 3 illustrates the separation of the Assembly from the Mayor/Manager Department for interfund purposes. The appropriateness of the workload categories and the accompanying allocation factors for each utility should be examined for the 1977 budget year.

CITY MANAGER

The calculation of interfund charges for services provided by this department to the utilities was the responsibility of the City Budget Officer. The allocation of workload was made to the identical categories as those in the Mayor and City Council Department. The percentage of time allocated to those categories varied slightly. The reason for this was that the personnel within this department were asked for their evaluation of time spent on work relating to these categories. The judgment of the City Budget Officer who had spent five months as Assistant City Manager, in addition to his observations of work sessions and City Council meetings, was also a criterion.

Within each category, (agenda related activities, personnel functions, maintenance and operation budget, and capital improvement program) the percentage of workload for each utility was calculated in the same manner as for the Mayor and City Council. The actual expense to each utility was calculated by the Controller Division who applied the

weighted percentage to the actual expense of the City Manager's Office less the dollars attributable for one administrative assistant and secretary whose specialized tasks had provided no service to the utility.

In 1975 the expense of this department included the functions of Labor Relations Specialist, Equal Employment Officer and Public Information Officer. It should be noted in the budgeted interfund charges for fiscal year 1976 that some of these functions have been removed from this department and the City Manager is combined with the Mayor. An evaluation for the 1977 budgeted interfund charges will be necessary for this department.

The City Budget Officer gave testimony that a time study had been attempted for this department but was not successful because the personnel did not accurately or adequately fill out the time sheets. Time cards were also proposed at one time for the Mayor and City Council but this idea was rejected.

INTERNAL AUDIT

The calculation of interfund charges from this department was the responsibility of the Internal Auditor working with the City Budget Officer. The actual interfund charge to the utilities was calculated by multiplying the actual auditor hours spent on each utility by the predetermined cost per hour. The hourly charge was based on the salaries and overhead of the department as outlined in Exhibit 6a. Testimony was received that the hourly rates charged by this department are readjusted as personnel changes and pay increases for Municipal employees take

effect. Exhibits showing that substantially higher costs would be incurred if these services were purchased outside the Municipality were provided. The Internal Auditor, who calculates the actual charges of this department, has an on-going workload and is able to estimate with accuracy his charges to others for budgetary purposes. He also works with staff of various departments to help determine his costs based on their needs.

COMMUNITY PROMOTION

The calculation of interfund charges from this department were performed by the Public Information Officer and the City Budget Officer on the basis of two costs: one, the cost of membership to the City in the Alaska Municipal League and the Alaska Chamber of Commerce and, two, the space distribution in the 1974 annual report.

The determination of each utility's cost for the Municipal League and Chamber memberships was allocated on the ratio of the number of employees per utility to the total number of City employees. The allocation for space in the annual report was expressed as a percentage of each utility's space in relationship to the entire cost of the annual report.

Testimony was given that through an inadvertent error the cost of the membership fees was not interfunded for the 1975 test year. It is the intention, however, of the Municipality to allocate the expense of these memberships in the future. In addition, the Municipality has decided to discontinue the publication of the annual report after 1975.

CITY CLERK ADMINISTRATION

The calculation of these interfund charges was the responsibility of the City Clerk working with the City Budget Officer. The services provided by the City Clerk to the subject utilities in this docket are the costs incurred by the Clerk's Office in providing services to the utility advisory boards and commissions. These services include recording secretaries, transcribing minutes, overhead, mailing, etc. The actual charge, calculated by the Controller Division, was based on 1/20 of the total cost of providing services to all of the City boards and commissions. There was testimony that in the future these charges will not be interfunded but will be services provided internally by each utility.

CITY CLERK - RECORDS RETENTION

The calculation of these interfund charges was the responsibility of the City Clerk working with the City Budget Officer using their previous experiences in providing the service of microfilming records of various departments. The actual charges were for the services received, and the cost was determined on an hourly charge based on salaries and overhead. The form for a participating department to request microfilming was provided as Exhibit 32. Time sheets were kept by the personnel in this department for the calculation of the actual cost. When budgeting for this service, a utility would consult with the City Clerk, Records Retention personnel to determine, based on the requested work, what the projected costs would be. It is noted that for the test year 1975 there were no charges to AWU and very minimal charges to ATU and ML&P.

CITY ATTORNEY

The calculation of these charges was the responsibility of the City Attorney working with the City Budget Officer and the actual charges were calculated by the Office of the City Attorney. A retainer was charged to each utility and the Port as its portion of the maintenance of the City Attorney's files, reference library and overhead. It should be noted that there was no retainer allocated to the general government departments. The attorney time was allocated at \$60 a billable hour, for the year 1975; each attorney kept a record of his workload attributable to the utilities. Testimony was given that at the present time and for the test year 1975, there was no form for the attorneys to fill out, and in some instances time keeping was noted on desk calendars and in other inappropriate ways. Various expenses associated with litigation were allocated to the appropriate utility. The City Budget Officer stated in the event of a monetary award by the Courts in favor of a utility those monies were directly apportioned to that utility.

If a utility would contract with an attorney outside the City Attorney's staff, the cost associated in this matter would be billed directly to the utility.

PROPERTY MANAGEMENT

The calculation of interfund charges by this department was done by the Property Management Officer working with the City Budget Officer. This division is the Office of Record for all real property including rights-of-way, buildings and any non-movable equipment that is Municipal property.

A retainer was charged to each utility and the general government unit which covered the salary, benefits and space allocated to the Records Clerk. The volume of records kept for each utility and general government unit was a factor taken into consideration in determining the retainer. The retainer was instituted by the City Attorney in 1974, when Property Management came under his supervision. It is now separate and the reasonableness of the retainer should be re-evaluated.

The actual interfund charge was the budgeted retainer plus the actual charge of \$17.50 an hour for appraising and right-of-way land acquisition. The hourly cost was based on an analysis by the Internal Auditor of the salary and overhead in this department. The Property Management Officer and the Controller Division calculated the actual charges.

The Municipality provided through Exhibit 11a comparable hourly costs of independent appraisers. The charge by the property management division to each utility was significantly less than the cost charged by an independent appraiser.

ADMINISTRATIVE SERVICES, ADMINISTRATION

The calculation of these charges was the responsibility of the City Budget Officer in consultation with the Assistant City Manager, Administrative Services, the Staff Accountant, and the Financial Management Systems Accountant. The charges to the utilities were expressed as a percentage of the total workload of the above mentioned personnel. Their workload was analyzed by the City Budget Officer

utilizing his best estimate and expertise based on the time these individuals spent on utility matters in four areas: current operating budget; existing capital improvement program; projected bond sales; use of the computerized accounting system. The actual charge, calculated by the Controller Division, was determined by applying the weighted percentages to the actual 1975 expense of this department. The actual charges for 1975 were less than the budgeted amount. The reason given was that vacancy factors were greater than budgeted, so the interfund charges were adjusted backwards on the basis of the calculated weighted percentages. The personnel of this department review their work load annually with the City Budget Officer to determine the percentage of time spent on utility matters.

This department is the Office of Management and Budget for the 1976 budget year.

CONTROLLER

The calculation of the interfund charges of this department, which was the general accounting arm of the City, was the responsibility of the Controller and staff working with the City Budget Officer.

Three categories of costs are analyzed to determine the percentage of time spent on utility matters. The first category, regular charges, (accountants' time in the general accounts payable category), allocated its costs for the 1975 test year based on desk audit time studies performed over a one month period. The Controller selected the time period and both daily and hourly time studies were

performed. Exhibit 13a was provided, which was the desk audit time sheets for November 1974. The employees were responsible for interpretation of workload and filling out time sheets.

The second category was the payroll system. The allocation factors for each utility were arrived at by determining, through desk audit time studies for a month and an analysis of payroll transactions for each utility, the workload for each utility expressed as a percentage of the total workload of this division.

The third category was the financial management system (FMS), and these costs were allocated on the basis of desk audit time studies over the same monthly period along with an analysis of the FMS transactions for each utility. This included computer machine time that the Controller used for each utility in addition to those charges allocated directly by the data processing department through the interfund process. The weighted average of the allocation percentages in each of the three categories, regular charges, payroll systems, and FMS was applied to the actual 1975 controller expense, and calculated by this department.

TREASURY

The calculation of the interfund charges of this department was the responsibility of the Treasurer and staff working with the City Budget Officer.

The Treasury was responsible for the receipt and custody of all funds for the City, including utility monies. The Treasurer, supervisor of this department, was responsible for the investment of all funds including utility bond

funds and handles all street and water assessments. Exhibit 30 was provided to show the monthly reports made by the Treasurer indicating the status of all cash and investments of the Municipality.

There are three sections under the Treasury Department: Receipts and Custody, Parking Violations and Assessments. The Treasurer made the determination that half of the administrative expense of this department be allocated as overhead equally to these three sections. This allocation became a part of the costs of service provided by each section.

Charges to each of the subject utilities for services rendered by the Receipts and Custody Section were based on a one week time study in 1974 in which the individuals working in this section performed a physical count of transactions handled. A sample of the time sheet was not available because of the relocation of this department and the disposal of these records. The actual expense to each utility was expressed as a percentage of the total cost of processing all transactions by this section.

Parking Violations did not affect any of the subject utilities.

The allocation of the Assessment section interfund expense was also based on a one week time study in 1974 of those individuals working in the section based on the number of hours spent on each assessment problem. It should be noted that the only utility requiring these services is AWU. The actual interfund expense of the Assessment Division was

expressed as a percentage of AWU's cost in relation to the entire cost of this section.

The remaining half of all interfund expenses of the Treasury Department was allocated to each utility and the general government unit based on their average equity in the investment accounts during the two months prior to the 1975 budget preparation. This was expressed as a percentage of the total equity investment of the City and applied by the Controller Division to the actual costs of this department.

For the 1977 budget, the sewer utility will have substantial impact on this department. Also, testimony was received that many different funds will be handled by this department as a result of unification. The methodology used to determine interfund charges for this department needs re-evaluation in light of unification.

PRINT SHOP

The calculation of the interfund charges for this department was the responsibility of the utility managers working with the City Budget Officer, and actual charges were computed by the Print Shop Supervisor in accordance with the Print Shop Prices provided as Exhibit 15a. These prices were based on salaries and overhead.

It should be noted that there was over a 400% increase in the budgeted and actual amounts interfunded in this category for ATU and AWU in 1975. Testimony was given that the probable reason for this was that ATU ordered a series of new forms, having used up forms that had been purchased from an outside supplier. As a result the initial cost was con-

siderably greater than a normal year's usage. A price sheet from Ken Wray's Print Shop substantiated the fact that the Print Shop prices are anywhere from one-third to over 100% less than the same service offered by a private business.

COURIER AND MAIL

The calculation of the interfund charges of this department was the responsibility of the City Budget Officer and actual charges were computed by the Mail Room Clerk and the Controller Division.

The allocation factor used to determine the amounts budgeted to each utility was based on an analysis of the current courier schedule (1974). The number of courier stops which served each utility was expressed as a percentage of the total amount of stops. This percentage became each utility's allocation of the actual costs of this department.

It should be noted that for 1975 ATU received no service from this section because the demands of this utility became sufficient to justify hiring its own employee to provide this service. Testimony was given that the minimum amount of times the courier serves ML&P and AWU was four times daily.

The mailroom charges were the result of joint utility mailings (not customer billing) and were minimal. Each utility has its own postage machine so these charges are no longer interfunded.

INSURANCE AND CLAIMS (RISK MANAGEMENT)

The calculation of the interfund charges for this department was the responsibility of the Insurance/Claims

Officer working with the City Budget Officer. The allocation of these charges was based on two categories: claims activity and insurance activity.

The actual cost of processing claims filed against the City was calculated on a cost per claim basis and charged to the appropriate utility. A quarterly report was made indicating the number of claims filed against each utility and the general government unit, the total expense of processing those claims and the calculation of charges to each utility. Exhibit 17a detailed the 1975 claims against each of the subject utilities and provided work sheets used to determine the cost of each claim based on this department's overhead to process these claims. It was emphasized that this charge is only to process claims and does not reflect payment to any third party.

The cost of providing insurance coverage to the various utilities during 1975 was allocated by weighing the type of insurance and coverage for each utility. Testimony was given regarding the diversified needs and numerous kinds of insurance needed by the utilities and the general government unit. It is apparent that this is an extremely complex subject. The judgment and experience of the Insurance/Claims Officer (Risk Manager) was the basis for the percentage of interfund charges allocated to each utility for insurance activity. The actual amount interfunded to ATU in this division doubled for the year 1975. The reason for this substantial increase was the requirements by OSHA to establish a safety program which heretofore was in the Personnel Department. The costs of this Safety Section were interfunded on the basis of the number of authorized positions

within the utility and general government unit and the percentage applied to the actual expense of this Section.

The Municipality has undertaken a self insurance program in some areas which is not reflected in the 1975 test year. There may be a decrease in expense related to insurance coverage but this will be offset by an increase in the expense of the claims activity. It will be necessary to re-examine the interfund charges in this division because of this new undertaking.

PERSONNEL

The calculation of the interfund charges by this department was determined by the Personnel Director and staff working with the City Budget Officer.

The allocation factors established for 1975 budget purposes were determined by a two-step process. The cost for employee/labor relations, records, and safety training was allocated based on each utilities percentage of the total employees in the City at the time the budget was prepared. The Safety Section was transferred to Risk Management thereby reducing the actual cost of this service.

The recruitment and classification costs of this division were allocated on the total number of classified employees in each utility expressed as a percentage of the total number of City classified employees at the time the budget was prepared. The actual expense to each utility, computed by the Controller Department, was determined by applying the weighted average of these two percentages to the actual 1975 expense of this department.

DATA PROCESSING

The calculation of the interfund charges by this department was prepared by the Data Processing Manager and

staff working with the City Budget Officer. The actual charges were computed by the Data Processing Manager and staff.

The Data Processing Department was responsible for computer time and the personnel to analyze, program, key-punch, if necessary, and maintain the computer programs. Testimony was given that there is presently no unused computer time; the machine is running beyond capacity and is working 24 hours a day, seven days a week. The Municipality is also utilizing mini-computers during the current year (1976) and is considering the purchase of a larger computer. No attempt had been made by the City, prior to unification, nor the present Municipality to contract for these services. The 1975 budgeted expenses were calculated by the computer on the basis of man months and projected cost estimates to accomplish the workload each utility requested. The actual expense was based on computer time utilized during 1975 and was calculated by a special built-in program designed for that purpose. The employees of this department kept time sheets (Exhibit 31) tracking their workload and assessing the proper utility. The hourly rates charged by this department for various data processing personnel were provided in Exhibit 19B.

Testimony was given on the plans for merging the computer systems of the former City and Borough and a possible purchase of computers as opposed to present leases. January 1977 is the target date for an integration of the two accounting systems, and this will dictate a re-evaluation of the charges for this department's services.