

1 2 1 2 ARRRC CONFIRMATION HEARINGS, SUSAN KNOWLES (APUC) / 42

Susan M. Knowles separate statement:

I fully concur with this Order with the exception of its waiver of a refund requirement on the interim rates charged pending the conclusion of the investigation of the proposed tariff revisions. The standard refund condition should be maintained in this case given the policy issues on rate development worksheet pricing and tariff organization which were raised by Staff in its preliminary analysis. Thus, further investigation could determine that the utility has complied with a costing procedure which is deficient or otherwise flawed in its results and that the proposed rates require modification. In addition, no showing has been made that a refund prescription will impose an unreasonable expense on the utility at the customer levels projected in its tariff advice letters.

*Susan M. Knowles*  
\_\_\_\_\_  
Commissioner Susan M. Knowles

*Pending*

JAY S. HAMMOND, Governor

ALASKA PUBLIC UTILITIES COMMISSION  
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

1100 Mackay Building  
338 Denali Street  
Anchorage, Alaska 99501

Phone (907) 276-6222

June 16, 1981

Ted Burns, Esq.  
Municipal Attorney  
Municipality of Anchorage  
632 West 6th Avenue  
Anchorage, Alaska 99501

COPY

Dear Mr. Burns:

Re: Certification of Garbage and Refuse Public Utilities

The enactment of Ch. 136, SLA 1980 (FCCS SB 577) repealed the language of AS 42.05.221(f) and portions of AS 42.05.711(b) which exempted garbage and refuse collection and disposal public utilities operating within municipal boundaries (as they existed on January 1, 1973) from having to obtain a certificate of public convenience and necessity for the service area within these boundaries.

The repeal of this language means that all municipal garbage and refuse utilities must possess a certificate of public convenience and necessity for the area served. AS 42.05.221(a), 42.05.701(2)(F), (5)(A). This is required even though, as a municipal utility, under the remaining language in 42.05.711(b) or under the new 42.05.711(j) (annual gross revenues of \$200,000 or less) they may not be subject to economic regulation by the Commission.

Notwithstanding the requirement mentioned above, a municipality may still be exempted from all or any portion of these statutes if, on a Commission finding, no legitimate public interest will be served by requiring compliance. AS 42.05.711(d).

Accordingly, we are enclosing with this letter the following documents:

1. Alaska Public Utilities Commission Act (AS 42.05);
2. Commission Rules of Practice and Procedure;
3. Two copies of the suggested form of application for a certificate of public convenience and necessity;
4. Suggested form of historical financial statements;

Ted Burns, Esq.

2

June 2, 1981

5. Suggested form of pro forma financial statements;
6. Sample of an approved tariff form.

The duplicate application form is furnished for your convenience to be used primarily as a working draft. The instructional footnotes are included to assist you in completing your application. Although the Commission's regulations in 3 AAC 48.090 specify an original and two copies of each pleading, the Commission has found that additional copies are needed to facilitate the processing of an application. The Commission requests that the final typed application be submitted in an original and seven conformed copies and should not include the instructional footnotes.

The form itself may be used as the application if you prefer to do so. In that event, any blanks not otherwise filled in should be marked "Not Applicable" or "None" as appropriate.

The Commission is of the opinion that it would not be unreasonable to allow a period of 60 days from the date of this notification in which to file the referenced application. If we can be of assistance in the matter, please do not hesitate to contact us.

BY DIRECTION OF THE COMMISSION

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION

*T.S. Mimmeli II*

*fa*  
John B. Farleigh  
Executive Director

Enclosures

CO. 100-100-100  
Retired

|           |    |         |
|-----------|----|---------|
| ACTED     | JW |         |
| PROCESSED | JB | 5-15-81 |
| FILED     | JW | 5-18    |
| INDEXED   | JB | 5-18    |
| JBZ       |    |         |

OK M.RW 5/27/81  
 OK SA 5-27-81  
 OK SA 5-27-81  
 OK SA 5-27-81

May 15, 1981

Note: This is a second routing of this draft - 1st draft has apparently been lost.

Ted Burns, Esq.  
 Municipal Attorney  
 Municipality of Anchorage  
 632 West 6th Avenue  
 Anchorage, Alaska 99501

Dear Mr. Burns:

Re: Certification of Garbage and Refuse Public Utilities

The enactment of Ch. 136, SLA 1980 (FCCS SB 577) repealed the language of AS 42.05.221(f) and <sup>portions of</sup> AS 42.05.711(b) which exempted garbage and refuse collection and disposal public utilities operating within municipal boundaries (as they existed on January 1, 1973) from having to obtain a certificate of public convenience and necessity for the service area within these boundaries.

The repeal of this language means that all municipal garbage and refuse utilities must possess a certificate of public convenience and necessity for the area <sup>served</sup> ~~it serves~~ AS 42.05.221(a), 42.05.701(2)(F), (5)(A). This is required even though, as a municipal utility, under the remaining language in 42.05.711(b) or under the new 42.05.711(j) (annual gross revenues of \$200,000 or less) they may not be subject to economic regulation by the Commission.

Actualizing the requirement portions above a municipality may still be exempted from all or any portion of these statutes if as a consequence of the repeal of the public utility will be served by private enterprise.

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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Carolyn S. Guess, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall

In the Matter of the Filing of a )  
Tariff Revision, Designated as ) U-81-33  
TA139-120, by the MUNICIPALITY OF )  
ANCHORAGE d/b/a ANCHORAGE TELE- ) ORDER NO. 1  
PHONE UTILITY To Change the )  
Conditions and Rates for Coin )  
Telephone Service )  
\_\_\_\_\_ )

ORDER SUSPENDING OPERATION OF TARIFF REVISION,  
INSTITUTING INVESTIGATION, AND ESTABLISHING  
DATES FOR PUBLIC HEARING AND SUBMISSION  
OF PRE-FILED TESTIMONY

On April 17, 1981, the MUNICIPALITY OF ANCHORAGE  
d/b/a ANCHORAGE TELEPHONE UTILITY (ATU) filed a tariff  
revision, designated as TA139-120, which proposed changes to  
the conditions and rates for coin telephone service. The  
utility proposed to

- (1) increase the per message rate charges for public  
and semi-public coin telephone service from 10¢ to 20¢  
per call;
- (2) increase the minimum monthly revenue required as a  
basis for continuing service at each location;
- (3) increase installation charges for semi-public  
telephone enclosure/supports;
- (4) institute a monthly rate to recover semi-public  
coin telephone equipment costs; and
- (5) delete present monthly rates for semi-public  
telephone enclosure/support equipment costs.

U-81-33(1) (6/1/81)  
Page 1 of 6

ALASKA PUBLIC UTILITIES COMMISSION  
1100 Mackay Building - 338 Denali Street  
Anchorage, Alaska 99501  
Phone 276-6222

7 times  
LXI / 189

1           ATU currently compensates the premise holder of  
2 public telephone service for furnishing janitorial or other  
3 services required, such as power for lighting, at the rate  
4 of \$2 per month or 12 percent of the local revenue collected,  
5 whichever is greater. The utility is requesting that the  
6 compensation be changed to reflect a flat rate of \$9 per  
7 month per instrument; this represents the approximate average  
8 commission paid in previous years.

9           Other charges include a monthly subscriber rate  
10 for semi-public telephone service equal to 50 percent of the  
11 monthly zone rate for regular one-party business line service.  
12 In addition to the monthly rate, the subscriber would guarantee  
13 total revenue from the instrument equal to 2.5 times the  
14 regular one-party business line zone rate. The monthly  
15 rates which are currently effective for shelfettes, boothettes,  
16 and booths would be discontinued.

17           According to the utility, the annual revenue from  
18 the currently effective tariff, based on year end 1978  
19 records, was approximately \$361,500. Based on the same  
20 level of activity, the new rates and charges will produce  
21 revenue of approximately \$767,000 (revenue requirement), an  
22 estimated increase of \$405,500. The change in the subscriber  
23 rate for semi-public telephone service would affect approximately  
24 390 customers.

25           The filing was noticed to the public on April 24,  
26 1981, with a closing date of May 25, 1981, for filing a  
27 statement of views. Two statements were received during  
28 that period, one favoring and one opposing the increase in  
29 per message rate charges. On May 26, 1981, the Alaska  
30

1 Consumer Advocacy Program (ACAP) filed comments requesting  
2 the Commission to reject the proposed permanent tariff  
3 filing for failure to comply with the filing requirements of  
4 3 AAC 48.275 and for failure to meet the interim rate tests  
5 set forth in Alaska Public Utilities Commission v.  
6 Greater Anchorage Area Borough, 534 p. 2d 549, 554, 557-559  
7 (Alaska 1975). ACAP also requested the Commission to  
8 investigate various coin telephone practices of ATU and  
9 requested additional information filings from ATU, including  
10 an updated test year. Also included with ACAP's comments  
11 was the result of a consumer call-in survey which showed  
12 51 percent of its 116 respondents opposed to the proposed  
13 increase.

14 The Commission Staff (Staff) recommended to the  
15 Commission that the operation of TA139-120 be suspended to  
16 allow Staff investigation of the utility's proposals. Staff  
17 also expressed its intention to review the rate development  
18 information in view of the most currently available operations  
19 and separations data to determine as accurately as possible  
20 the current costs of coin telephone services. The Staff  
21 also expressed its belief that the extensive filing requirements  
22 of 3 AAC 48.275(a) were burdensome and unnecessary for  
23 satisfactory resolution of this case.

24 The Commission concurs with Staff and believes the  
25 operation of TA139-120 should be suspended for an initial  
26 six-month period to allow a full Staff investigation of the  
27 proposed tariff revisions. The Commission also believes the  
28 rate development review performed by Staff should be in  
29 light of the most currently available financial data so as  
30

1 to determine as accurately as possible the costs of coin  
2 telephone service, which can then be considered in  
3 evaluating ATU's rate increase request.

4 The Commission is of the opinion that it would be  
5 in the public interest to schedule a formal hearing to  
6 consider the utility's request. The Commission also believes  
7 it would be conducive to a fair and expeditious disposition  
8 of the proceedings to require the parties to submit a list  
9 of witnesses in the order of their appearance and to pre-file  
10 written prepared, instead of oral direct, testimony for each  
11 witness so identified. 3 AAC 48.150(f). The parties will  
12 be specifically precluded from calling witnesses who have  
13 not submitted prepared written testimony. Exceptions may be  
14 granted by the Commission based on an offer of proof that a  
15 witness's testimony is necessary for a complete evidentiary  
16 record. Justification for the omission of the witness from  
17 the original witness list must be provided.

18 THE COMMISSION FURTHER FINDS AND CONCLUDES:

19 1. ATU is a public utility as defined by AS  
20 42.05.701 and is subject to the jurisdiction of this  
21 Commission.

22 2. The operation of the tariff revision,  
23 designated as TA139-120, should be suspended for an initial  
24 six-month period, not to extend beyond December 1, 1981.

25 3. Staff should be made a party to this  
26 proceeding and should conduct an investigation to determine  
27 the accuracy and reasonableness of the utility's  
28

1 requested tariff revision, including a review of the  
2 supporting cost study and the revenue impact of the revision  
3 on new subscribers in light of the most current operations  
4 and separations data available.

5 4. A public hearing should be scheduled in Anchorage,  
6 Alaska, to consider the proposed tariff revisions to conditions  
7 and rates for coin telephone service requested by ATU.

8 5. ATU and Staff should be required to pre-file  
9 testimony in accordance with 3 AAC 48.150(f). The parties  
10 should also file a list of witnesses in their order of  
11 appearance.

12  
13 ORDER

14 THE COMMISSION FURTHER ORDERS:

15 1. The operation of the tariff revision,  
16 designated as TA139-120, filed by the Municipality of  
17 Anchorage d/b/a Anchorage Telephone Utility, is suspended  
18 for an initial six-month period, not to extend beyond  
19 December 1, 1981.

20 2. The Commission Staff is designated as a party  
21 to this proceeding and directed to conduct an investigation  
22 into the reasonableness and propriety of TA139-120 as  
23 outlined in the body of this Order.

24 3. A public hearing to consider the proposed  
25 tariff revisions to conditions and rates for coin telephone  
26 service requested by the Municipality of Anchorage d/b/a  
27 Anchorage Telephone Utility is scheduled to convene at  
28 9:00 a.m., August 11, 1981, in the Commission's hearing room,  
29 1100 MacKay Building, 338 Denali Street, Anchorage, Alaska.

30  
31 U-81-33(1)  
32 Page 5 of 6

1                   4. The Municipality of Anchorage d/b/a Anchorage  
2 Telephone Utility shall file by 4:00 p.m., July 10, 1981, a  
3 list of witnesses, in the order of their appearance, and  
4 written prepared testimony for each witness.

5                   5. Commission Staff shall file by 4:00 p.m.,  
6 July 24, 1981, a list of witnesses, in the order of their  
7 appearance, and written prepared testimony for each witness.

8 DATED AND EFFECTIVE at Anchorage, Alaska, this 1st day of  
9 June, 1981.

10                   B. DIRECTION OF THE COMMISSION  
11                   (Commissioner Marvin R. Weatherly, not participating)

12  
13 (S E A L)



ALASKA PUBLIC UTILITIES COMMISSION  
1100 Mackay Building - 338 Denali Street  
Anchorage, Alaska 99501  
Phone 276-6222

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31 U-81-33(1)  
32 Page 6 of 6



ALASKA PUBLIC UTILITIES COMMISSION  
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

JAY S. HAMMOND, Governor

1100 MacKay Building  
338 Denali Street  
Anchorage, Alaska 99501

Phone (907) 276-6222

June 22, 1981

In reply refer to: Tariffs  
TA34-121

Thomas R. Stahr, General Manager  
Municipal Light & Power  
1200 East First Avenue  
Anchorage, Alaska 99501

Dear Mr. Stahr:

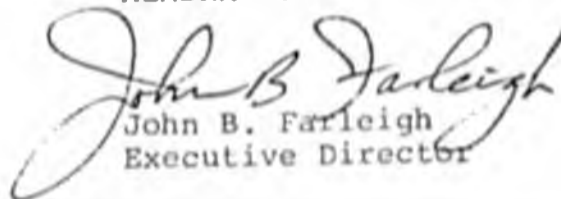
Enclosed are validated copies of tariff sheets filed on June 10, 1981, by Municipal Light and Power (ML&P). This filing, designated as TA34-121, has an effective date of June 1, 1981.

Although the Commission has approved this filing, it is concerned about the continuing lack of generation by the waste heat unit. ML&P is directed to include in its next gas cost rate adjustment filing an explanation of the lack of reported steam generation and ML&P's plans for the waste heat unit.

BY DIRECTION OF THE COMMISSION

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION

  
John B. Farleigh  
Executive Director

Item 7

COMMISSION

|                   |
|-------------------|
| STAFF             |
| Dist. JMW 6/19/81 |
| SKM 6/19/81       |
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| T/19 6/19/81      |

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mi, ~~GA~~ 6/19/81

45 days end  
7/24; utility

must have advance  
approval to bill 7/1/81

June 19, 1981

In reply refer to: Tariffs  
TA34-121

Thomas R. Stahr, General Manager  
Municipal Light & Power Department  
~~Municipality of Anchorage d/b/a/~~  
1200 East First Avenue  
Anchorage, Alaska 99501

Dear Mr. Stahr:

Enclosed are validated copies of tariff sheets filed on June 1), 1981, by Municipal Light and Power (ML&P). This filing, designated as TA34-121, has an effective date of June 1, 1981.

Although the Commission has approved this filing, it is concerned about the continuing lack of generation by the waste heat unit. ML&P is directed to include in its next gas cost rate adjustment filing an explanation of the lack of reported steam generation and ML&P's plans for use of the waste heat unit.

BY DIRECTION OF THE COMMISSION

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION

John B. Farleigh  
Executive Director

08 H6LH

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

**DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT**  
ALASKA PUBLIC UTILITIES COMMISSION

1100 MACKAY BUILDING  
338 DENALI STREET  
ANCHORAGE, ALASKA 99501

June 24, 1981

In reply refer to: Tariffs  
TA146-120

A. C. Pistorius, General Manager  
600 East 38th Avenue  
Anchorage, Alaska 99503

Dear Mr. Pistorius:

Enclosed is a validated copy of the tariff sheet filed on May 17, 1981, by Anchorage Telephone Utility (ATU). This filing, designated as TA146-120, has an effective date of July 2, 1981.

In its study of this filing, the Commission reviewed a number of previous filings affecting the Secretarial Answering Service Schedule and noted that the large TASCOM answering system, which was the subject of TA98-120, TA111-120, and TA115-120, is not presently tariffed. The Commission urges ATU to review its offerings in the Secretarial Answering Service Schedule to assure that all offerings are properly tariffed.

BY DIRECTION OF THE COMMISSION

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION

  
John B. Farleigh  
Executive Director

Item 8

Referred: \_\_\_\_\_  
 \_\_\_\_\_ NP  
 OR VP 6/21/81  
 CM SK 6/19/81  
 1 MP GA 6/17/81

| STAFF ACTION |      |         |
|--------------|------|---------|
| AC           | DATE | DATE    |
| Drafted by   | JMW  | 6/19/81 |
| Typed by     | SKM  | 6/19/81 |
| Checked by   | JMW  | 6/19/81 |
| Approved by  | TJM  | 6/19/81 |

45 days  
 end  
 7/2/81

June 19, 1981

In reply refer to: Tariffs  
 TA146-120

A. C. Pistorius, General Manager  
 600 East 38th Avenue  
 Anchorage, Alaska 99503

Dear Mr. Pistorius:

Enclosed is a validated copy of the tariff sheet filed on May 18, 1981, by Anchorage Telephone Utility (ATU). This filing, designated as TA146-120, has an effective date of July 2, 1981.

In its study of this filing, the Commission reviewed a number of previous filings affecting the Secretarial Answering Service Schedule and noted that the large TASCUM answering system, which was the subject of TAs 98-120, TA111-120, and TA115-120, is not presently tariffed. The Commission urges ATU to review its offerings in the Secretarial Answering Service <sup>Schedule</sup> to assure that all offerings are properly tariffed.

BY DIRECTION OF THE COMMISSION

Very truly yours,  
 ALASKA PUBLIC UTILITIES COMMISSION

John B. Farleigh  
 Executive Director



1 On May 8, 1980, ATU filed Supplement "A" to  
2 TA110-120 which deaveraged the originally filed ESIS monthly  
3 rate of \$160 per exchange system access connection into two  
4 categories to reflect different usage characteristics. The  
5 utility proposed the following monthly charges per exchange  
6 system access connection:

7 MTS/WATS Equivalent Services (OCC) \$350.00  
8 Other Services (FX, CCSA, OPX, TL) 90.00

9 The higher monthly rate for MTS/WATS equivalent  
10 services provided by OCC's reflect the higher usage per  
11 access connection projected by ATU. The access charges were  
12 developed based on the same cost allocation methodology used  
13 in ATU's annual cost separations studies approved under 3 AAC -  
14 48.430. The annual revenue to be realized for the provision  
15 of ESIS is anticipated to be \$417,000.

16 A notice of the utility tariff filing was issued  
17 April 16, 1980; a notice of amended utility tariff filing,  
18 reflecting the rates proposed in Supplement "A", was issued  
19 May 14, 1980. Statements objecting to TA110-120 were filed  
20 with the Commission by Atlantic Richfield Company (ARCO),  
21 Alyeska Pipeline Service Company (Alyeska), Exxon Company  
22 U.S.A. (Exxon), and the General Services Administration  
23 (GSA).

24 On May 19, 1980, the General Services Administration  
25 (GSA), representing the interests of the Executive Agencies  
26 of the United States in their capacity as customers of ATU,  
27 submitted comments on the proposed tariff.  
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1 GSA raises two specific issues. First is the  
2 question of tariff administration or application. GSA  
3 believes that there is the possibility of ambiguity in the  
4 application of the proposed ESIS tariff and ATU's current  
5 Alaska Telephone Switching System (ATSS) tariff. Second,  
6 GSA questions the jurisdiction of this Commission relative  
7 to the application of tariffs of an interstate interexchange  
8 nature. It cites a recent conflict between the New York  
9 Telephone Company and the Federal Communications Commission  
10 (FCC) and agrees with what they conclude to be the FCC  
11 position in the dispute.

12 On June 12, 1981, Alascom, Inc. (Alascom), the  
13 long lines carrier for Alaska, filed comments supporting the  
14 principle advanced in the ESIS filing but expressing specific  
15 concerns. They are:

- 16 1. The 3,000 minutes of use per line  
17 per month may be understated.
- 18 2. Exception is taken to the use of a  
19 composite CSR because it is not  
20 standard to the Cost Separations  
21 Manual.
- 22 3. TL and OPX services should not be  
23 included.
- 24 4. The use of 1977 data is questioned  
25 and use of the most current cost  
26 information advocated.

27 Due to the complexities of the ESIS filing, Order  
28 No. 1 suspended the permanent operation of TA110-120 and  
29 denied interim approval. The Commission Staff (Staff) was  
30 designated as a party to the proceeding.

31 Order No. 2 in the instant proceeding scheduled a  
32 public hearing to be convened at 9:00 a.m., on March 3,

1 1981, in the Commission's hearing room, 1100 MacKay Building,  
2 338 Denali Street, Anchorage, Alaska. The Order further  
3 extended the suspension period for a period ending 45 days  
4 after completion of the public hearing. Upon stipulation of  
5 the parties Commissioner Marvin R. Weatherly acted as the  
6 hearing officer with the provision that two Commissioners  
7 would read the record. The record was received by the  
8 Commission on April 30, 1981, and was read by Commissioners  
9 Carolyn S. Guess, Chairman, and Stuart C. Hall by May 15,  
10 1981. This date is designated as the completion of the  
11 public hearing. A certification that the record has been  
12 read by Commissioners Guess and Hall is filed in the Docket.

13 On January 22, 1981, Alyeska Pipeline Company  
14 petitioned the Commission to intervene in the instant  
15 proceeding. That petition noted that its representation  
16 included Amerada Hess Pipeline Company, ARCO Pipeline  
17 Company, BP Pipeline Company, MOBIL Alaska Pipeline Company,  
18 Phillips Alaska Pipeline Company, SOHIO Pipeline Company,  
19 and Union Alaska Pipeline Company.

20 The hearing was convened on March 3, 1981. Finding  
21 no opposition to the Petition for Intervention (Tr., p. 6)  
22 the Commission granted intervior status to Alyeska Pipeline  
23 Service Company (Alyeska), ARCO Alaska, Inc. (ARCO), and  
24 SOHIO Alaska Petroleum Company (SOHIO). Intervention was  
25 granted on a consolidated basis (Tr., p. 11), and for the  
26 purpose of this Order the parties granted intervention will  
27 be designated intervenors.  
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ALASKA PUBLIC UTILITIES COMMISSION  
110 MacKay Building - 338 Denali Street  
Anchorage, Alaska 99501  
Phone 276-6222

125

1 Background - Telephone Industry  
2 Cost Separations Procedures

3 Telephone systems today are used interchangeably  
4 in providing local exchange,<sup>1</sup> intrastate and interstate  
5 message toll service.<sup>2</sup> Jurisdiction of intrastate communica-  
6 tions rests with the state regulatory commissions, while  
7 interstate authority resides with the FCC. The jurisdictional  
8 separation of the telephone plant may be defined as a series  
9 of methods and principles for dividing the investment,  
10 expenses, revenues, taxes, and reserves, and assigning them  
11 to their respective operations. It should be noted that  
12 while jurisdiction has been the driving force in developing  
13 these procedures, the same procedures have been used in  
14 separating intra-jurisdictional plant.

15 In the early years of telephone industry development,  
16 the local companies were not compensated for message toll  
17 service. The local exchange rates were based solely on all  
18 the costs associated with the use of local exchange service.  
19 Long distance carrier rates were based only on their costs  
20 of transmission between exchanges. This was known as the  
21 board-to-board method of setting rates. In 1930 (prior  
22 to the enactment of the Communications Act of 1934) for  
23 purposes of fixing just and reasonable rates for interstate  
24 and intrastate services, the U. S. Supreme Court held in a

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<sup>1</sup> Telephone Exchange Service means service within a telephone  
26 exchange or within a connected system of telephone exchanges  
27 within the exchange area operated to furnish to subscribers  
28 intercommunicating service of the character ordinarily  
furnished by a single exchange and which is covered by the  
exchange service charge.

29 <sup>2</sup> Toll Service means any call to a point outside the local  
30 service area, the income from which is credited to toll  
31 revenue, as distinguished from local and inter-zone calls  
32 whose income is credited to exchange revenue.

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ALASKA PUBLIC UTILITIES COMMISSION  
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landmark decision<sup>3</sup> that the rate base and expenses must be allocated between interstate and intrastate uses. Even with this high ruling, it took more than a decade of negotiations and discussion before the FCC was prompted to implement the high Court's mandate.

In 1945 the FCC initiated a formal investigation<sup>4</sup> review of jurisdictional separations procedures. This caused American Telephone & Telegraph Co. (ATT) to file interstate tariffs based on the station-to-station principle of costing and ratemaking. The station-to-station approach includes all plant from the originating to the terminating telephone station, including the intermediary loops and local switching facilities; i.e., all facilities necessary for the completion of a toll call. This was followed in 1950 by similar tariffs being filed for intrastate toll service, also on a station-to-station basis. Throughout the 1940's to the present time, jurisdictional separations methodology has been under constant review and change - change that for the most part has allocated more costs to toll service.

The first Separations Manual which established specific allocation methodology was negotiated by the National Association of Regulatory Utility Commissioners (NARUC), the FCC and ATT in 1947. Its implementation by ATT, however, was delayed until 1952, some 22 years after the Smith decision.

Since 1947 the Separations Manual has changed due to social as well as economic pressures and has assumed such colorful and informal titles (based on location where agreement was reached) as Charleston (1952), Modified Phoenix

<sup>3</sup> Smith v. Illinois Bell Telephone Co., 282 U.S. 133, 149-51 (1930).

<sup>4</sup> FCC Docket 6328.

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1 (1956), and Denver (1965); the current Separations Manual,  
2 which is called "Ozark," was adopted in 1971.

3 The FCC in 1967<sup>5</sup> pointed to the inexact nature of  
4 the proposed separations process:

5 However, we recognize that allocation of  
6 costs is not simply "a matter for the  
7 slide rule. It involves judgement on a  
8 myriad of facts. It has no claim to an  
9 exact science." Colorado Interstate Gas  
10 Company v. Federal Power Commission [FPC],  
11 324 U.S. 581, 589. Thus, although a  
12 jurisdictional separation must take into  
13 account of and measure the uses to which  
14 common property is put by several services,  
15 it clearly affects the reasonableness or  
16 equitableness of the results produced by  
17 such measurements.

18 This point was earlier addressed by Justice Brandeis  
19 in speaking for the court in Groesbeck v. Duluth<sup>6</sup>:

20 It is much easier to reject formulas  
21 presented as being misleading than to  
22 find one apparently adequate.

23 The court also noted in Colorado Interstate Gas v.  
24 FPC, supra:

25 Under this act the appropriateness of  
26 the formula employed by the Commission  
27 in a given case raises questions of fact  
28 not law.

29 The appropriateness of the Separations Manual to  
30 the State of Alaska was also addressed in the 1967 decision:

31 They do not include Alaska and Hawaii by  
32 virtue of their geographic location and  
the nature of the facilities required to  
serve them, cannot properly be governed  
by the separations procedures which are  
appropriate for the other States.

33 <sup>5</sup> FCC Dockets 15011 and 16258; 9 FCC 2d, 244

<sup>6</sup> Groesbeck v. Duluth, S.S. & A.R. Co., 250 U.S. 607,  
614, 615, 63 L. Fed. 1167, 1172, PUR 1920A 177, 40 S.  
Ct. 38 (1919).

<sup>7</sup> FCC Dockets 15011 and 16258, supra.

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2 In a Recommended Report and Order of the FCC-NARUC  
3 Joint Board on Jurisdictional Separations<sup>8</sup> adopted October 27,  
4 1970, Alaska was again excluded from consideration in the  
5 separations process:

6 In accordance with the Commission's past  
7 decisions regarding jurisdictional  
8 separations, these procedures are not  
9 necessarily designed to apply to Alaska  
and Hawaii in view of the substantially  
different conditions existing in the  
case of these states.

10 The above language was adopted and noted in the  
11 Ozark Manual adopted by the FCC and approved for nationwide  
12 use in 1971.

13 By August, 1975, the FCC moved to remove this  
14 restriction. In a letter to the Alaska Public Utilities  
15 Commission then FCC Chairman Richard E. Wiley stated:

16 Accordingly, we approve the use of the  
17 February 1971 edition of the FCC-NARUC  
18 Separations Manual for jurisdictional  
separations of the operation of RCA  
Alascom in Alaska.

19 On July 18, 1975, the APUC, through regulation<sup>9</sup>,  
20 adopted the use of the February 1971 edition of the Separations  
21 Manual for intrastate separations.

22 The FCC in May, 1977, initiated Docket 21263 to  
23 deal with rate integration for the states of Alaska and  
24 Hawaii. The docket's prime focus is the formal adoption of  
25 a separations process for Alaska and Hawaii. A final Joint  
26 Board Order and Recommendation is in the process of being  
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29 <sup>8</sup> FCC DOCKET 18866, 26 FCC 2d.

30 <sup>9</sup> 3 AAC 48.430.  
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drafted at this time. There is no indication that the nationwide Ozark formula will be modified for application to Alaska.

The 1971 Separations Manual (Ozark) has, thus, dictated the telephone cost separations methodology for the State of Alaska since mid-1975.

Since the adoption of Ozark, the allocation process has developed minor confrontations but has for the most part served the telephone industry and regulators well. ATT, Alascom and the other large independent telephone companies in providing services such as MTS and WATS<sup>10</sup> have been able to apply the manual in designating that portion of local exchange service expenses to be borne by MTS and WATS services.

Until recent years toll service has been provided solely by the telephone common carriers. The Execunet<sup>11</sup> decision has created a new entity in the field known as the Other Common Carrier (OCC). These are basically telecommunications entities created to provide a form of substitution to the traditional toll network. The Separations Manual, so exhaustively developed since the Smith decision, has no provision to compensate local exchange companies for the use of their exchange facilities by the OCC's in the origination and termination of the OCC toll substitution traffic -- the Execunet decision mandates that interconnection be made but

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<sup>10</sup> WATS (Wide Area Telephone Service) - A special direct distance dialing service which allows a subscriber to make interstate calls at fixed volume rates.

<sup>11</sup> MCI Telecommunications Corp. v. FCC, 561 F.2d 365 (D.C. Cir. 1977), cert. denied, 434 U.S. 1040 (1978); MCI Telecommunications Corp. v. FCC, 580 F.2d 590 (D.C. Cir.), cert. denied, 439 U.S. 980 (1978).

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1  
2 it is also clear that such interconnection deprives the  
3 connecting exchange company of toll revenues and allows the  
4 use of the exchange facilities without proper compensation.

5 In April, 1979, at the prompting of the FCC, ATT  
6 and other telephone companies, together with the major OCC's,  
7 established a temporary plan to compensate local exchange  
8 companies for the use of their facilities. The agreement  
9 was accomplished under the auspices of the FCC and has  
10 become known as ENFIA (Exchange Network Facilities Agreement).  
11 The FCC has termed the agreement a form of "rough justice"  
12 in that it has met the immediate need for a formula for  
13 compensation. It must be noted, however, that the ENFIA  
14 formula is applicable only to the OCC interconnection problem.

15 With the advent of competition and the mandate of  
16 Execunet, telephone exchange companies became more acutely  
17 aware of toll revenue diversion and quickly identified FX  
18 and CCSA<sup>12</sup> as suspect. FX and CCSA are private line services  
19 that have been treated differently from other service offerings.  
20 The costs associated with these private line services are  
21 assigned wholly to the interstate revenue requirement. The

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23  
24 <sup>12</sup> FX service provides a subscriber with a private line  
25 connecting his phone with a telephone exchange not located  
26 in his area. Example: A FX subscriber in Anchorage is  
27 connected by private line to the Juneau exchange. The  
28 subscriber would receive two bills, one for his private line  
29 and the other for the charge assessed for local exchange  
30 service in Juneau. CCSA (Common Control Switching Arrange-  
31 ment) is a private line system that links the various offices  
32 of a company to each other through switches on the subscribers  
premises. These private line circuits are for the exclusive  
use of the CCSA subscriber.

1 costs, however, associated with the local exchange accessed  
2 by such services are assigned wholly to the intrastate  
3 revenue requirement. The FCC in regards to FX and CCSA has  
4 stated:

5 ... it appears that the Separations  
6 Manual might require either change or  
7 interpretation to effectuate any such  
8 [separations change for FX/CCSA]. Since  
9 the Manual is part of our rules,  
10 some form of rulemaking or interpretive  
11 proceeding would appear necessary. We  
12 intend to study the existing compensation  
13 mechanism for local telephone companies  
14 whose facilities are used in connection  
15 with the 'other services' discussed in  
16 the agreement [including FX/CCSA]...in  
17 the future we will be able to determine  
18 whether [the ENFIA approach should be  
19 applied], and under what procedures, any  
20 changes should be made.<sup>13</sup> (Emphasis  
21 added.)

22 The FCC has ventured forth with a tentative plan<sup>14</sup>  
23 but no firm time frame for implementation has been proposed.

24 The plan was summarized as follows:

25 Basically, the plan prescribes access  
26 charges for four categories of interstate  
27 service (MTS/WATS, FX/CCSA access,  
28 private line and OCC-ENFIA) that will  
29 determine the amounts interchange carriers  
30 will pay for the use of exchange plant  
31 to originate and terminate interstate  
32 traffic.

33 The FCC further stated that the present  
34 separations procedures would be used on an interim basis.

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36 <sup>13</sup> MCI Telecommunications v. FCC, supra, as cited on p. 6 of  
37 Brief for Respondents New York Tel. Co. v. F.C.C., 631  
38 F.2d 1059 (1980).

39 <sup>14</sup> MTS and WATS Market Structure, Second Supplemental  
40 Notice of Inquiry and Proposed Rulemaking, FCC 80-198  
41 (April 16, 1980).

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ATU

ATU pre-filed testimony and presented the following witnesses:

A. J. Moreland (T-1) - ATU, Manager of Engineering and Construction

Ms. Nancy Heller (T-2) - Ernst and Whinney

M. D. Campbell (T-3) - Ernst and Whinney

A. C. Pistorius (T-4) - ATU, General Manager

Witness Moreland set forth the range of services that would fall under the ESIS tariff and the reason for the filing at this time.

Witness Heller presented the general approach used in developing the ESIS rates and the basic assumptions that were made in the rate development.

Witness Campbell explained the 1977 Cost Separations Study and its use in developing the ESIS rates and the modifications to the study that were necessary in order to develop the ESIS rate.

Witness Pistorius covered the factors that caused the utility to develop the ESIS tariff and further explained the recovery of costs associated with providing access from interexchange services that use the exchange facilities of ATU.

The case in chief of the utility argues that historically certain services that have gained access to ATU's local exchange facilities have caused costs to be incurred and that these costs have not been recovered through the cost separations procedures applied to MTS/WATS services. Additionally, by the nature of the access arrangements, such toll revenues have been diverted. The utility stated that costs associated with these access services have been insignificant in the past, but in recent years they have created

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1 a more significant cost to the utility which has been  
2 absorbed through ATU's general revenue requirement. With  
3 the advent of OCC operations, such as Southern Pacific  
4 Communications Company and its request before the FCC to  
5 provide service to Alaska, ATU was prompted to reevaluate  
6 its tariffs and define the costs associated with access by  
7 interexchange services.

8 The utility costing approach is to apply the  
9 methodology accepted by this Commission and the FCC as set  
10 forth in the Separations Manual of 1971, making certain  
11 assumptions in the application of that methodology. The  
12 utility used its last Alascom accepted separations  
13 study of 1977 and its private line inventory of 1978 in  
14 developing the basis of its study (T-2, p. 3). The original  
15 ESIS tariff filing provided a single monthly rate of \$160  
16 for all access arrangements. Upon further consideration by  
17 the utility, it became apparent that such services should be  
18 costed on a usage basis; i.e., those who use the local  
19 exchange facility more should pay a higher rate. Due to an  
20 inability to obtain ESIS usage data, the utility had to make  
21 certain assumptions. In the case of the OCC's, the utility  
22 used the figure of 3,000 minutes of use supplied by the  
23 OCC's and accepted during ENFIA negotiations by ATT, the  
24 OCC's and the FCC. For the other ESIS offerings, ATU used  
25 the figure of 1,096 minutes of use. This is the average  
26 usage per main station in the Anchorage area, the utility  
27 believes this is a valid and representative usage amount.  
28 Using these assumptions the utility applied the data to the  
29 number of channels gathered from its inventory and established  
30 an assumed usage for the ESIS service (T-2, p. 3).  
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1           Witness Warriner reviewed the cost development  
2 methodology provided by the utility in support of the ESIS  
3 filing. Witness Frederick presented rates which he believed  
4 the Commission should use in granting approval of the ESIS  
5 filing. He also presented certain policy questions which he  
6 believed the Commission should address. He further recommended  
7 that the ESIS rates be on an inception basis and suggested  
8 that they also be interim.

9           The Staff position and analysis is supportive of  
10 the ESIS development concept but differs with the utility as  
11 to the basis for the rates. The Staff recommends that the  
12 ESIS rates be separated into intrastate and interstate  
13 jurisdictional rates. This approach calls for the allocation  
14 of access charges using a 1.84 interstate and 1.13 intrastate  
15 composite station rate (CSR) ratios as a part of the subscriber  
16 plant factor (SPF). This approach, according to the Staff,  
17 will reflect the relative distribution of expenses and  
18 investment attributable to ESIS relative to MTS/WATS. The  
19 Staff does, however, present a composite rate approach  
20 (WJW-A1) and a summary of the ESIS revenue requirement under  
21 this composite method (WJW-C1). The difference in the  
22 utility composite rates and those of the Staff is in the  
23 application of a different CSR for OCC and FX, OPX, TL with  
24 a resultant difference in the factors used in developing an  
25 ESIS revenue requirement.

26           Due to uncertainty regarding usage factors and the  
27 aged costing information provided by ATU, Staff advocated  
28 interim refundable rates for the ESIS services.  
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INTERVENORS

The Intervenors pre-filed testimony and presented the following witnesses:

Richard Barton (T-7) - ARCO (adopted testimony pre-filed by Paul Odor)

Dennis O'Day (T-8) - SOHIO

William J. Benton (T-9) - Alyeska

Witness Barton summarized the communications activities of ARCO and found that it is inappropriate for ATU to apply an ESIS tariff to OPX and Tie Line facilities that terminate only at the premises of the customer and not the exchange facilities of ATU. He also stated that the application of the ESIS tariff would result in discrimination between interstate and local customers of ATU. Barton took exception to the utility's representation that the ESIS rates are based on conservative estimates and termed such estimates as nothing more than "unsubstantiated assumptions."

Witness O'Day diagrammed the SOHIO system as it relates to ATU. He took exception to some of ATU's assumptions relative to usage and testified that the utility is being adequately compensated by virtue of SOHIO's trunking requirement that maintains a P.01 availability on the ATU provided trunks. O'Day further stated that they could not determine to their satisfaction where the "alleged" \$417,000 revenue requirement came from or how it was established.

Witness Benton described the private telephone system of Alyeska and noted that the area that transverses the Trans-Alaska Pipeline is not served by a public telephone system. Benton's testimony presents the view that the proposed tariff is merely a rate increase as a result of existing facilities and is not a new service offering.

1 Alyeska, in considering the ESIS tariff nothing more than a  
2 rate increase, finds no justification for the increase and  
3 the tariff discriminatory.

4 The basic theme of the intervenors' presentation is  
5 that the ESIS filing is not a new tariff offering, except  
6 possibly as it relates to of the OCC's, but merely a rate  
7 increase to services that the intervening companies have  
8 enjoyed for many years; i.e., FX, OPX, and TL. The intervenors  
9 believe the revenue requirements to serve their facilities  
10 have been met through rate development which is manifested  
11 in current tariffs and the approval of the ESIS tariff would  
12 in effect amount to double-dipping by double tariffing the  
13 same service. They further contend that OPX and TL services  
14 are in-house communications and do not use ATU equipment.

15  
16 Discussion

17 A fundamental question that must be addressed is  
18 whether the ESIS tariff covers services that are in some  
19 manner substituting for or diverting toll revenues from the  
20 utility and whether this toll diversion creates a revenue  
21 requirement for the utility that is not being met through  
22 its current tariff.

23 In the instance of the OCC systems of interconnection  
24 with local exchanges, there is no question that toll diversion  
25 exists. There is nationwide recognition of this fact as  
26 evidenced by the FCC action in the ENFIA proceedings. There  
27 is no evidence in this proceeding that would lead this  
28 Commission to the conclusion that an interconnection with an  
29 OCC in Anchorage would deviate from the experience and  
30 history of such interconnections in other jurisdictions in  
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1 our nation. To the contrary, the record before the Commission  
2 clearly demonstrates that the utility can expect a revenue  
3 impact from OCC interconnection and that it is prudent for  
4 ATU to anticipate this occurrence by filing a tariff that  
5 will cover the revenue requirement associated with the birth  
6 of OCC interconnection in Anchorage, Alaska.

7 In the minds of some, the question of toll diversion  
8 and a revenue requirement associated with that diversion is  
9 not as clear or pronounced in the case of FX, OPX and TL  
10 services. The Staff and ATU agree that the application of  
11 the ESIS tariff is appropriate for these services, while the  
12 Intervenors reject this concept.

13 Again, the basic question is whether these services  
14 are or can be used as a toll substitute, thus denying revenues  
15 to the utility. Counsel for the Intervenors admits that  
16 this is possible (Tr., p. 21). Witness Barton admits that  
17 OPX lines serving Kenai and Fairbanks can gain access to the  
18 ATU exchange (Tr., p. 318) and also admits that tie-line  
19 services to the Prudhoe Bay area are being used for personal  
20 telephone calls and by-passing the toll network (Tr., p. 320).  
21 Witness O'Day granted that possibly 10 percent of the people  
22 in his company have access to the Tie Lines for personal use  
23 (Tr., p. 332) and that it is a matter of economic trade-off  
24 of whether a caller would use a tie line or the exchange  
25 facility at Deadhorse. O'Day also acknowledged the question  
26 of toll diversion (Tr., p. 338).

27 The record in this proceeding clearly supports the  
28 conclusion that toll diversion exists for FX, OPX, and TL.  
29 There is also support for an additional revenue requirement  
30 for these services and that the utility is not being compensated  
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1 for costs incurred in providing services outside and beyond  
2 the normal trunking tariffed rate. The Intervenors have  
3 provided no evidence that the assumptions or costing methodology  
4 of utility or Staff are erroneously based. In fact, Intervenor  
5 witness Benton in Exhibit WJB-2 indicates a measured 1,188  
6 off-net calls which results (using a holding time of 4.3 minutes  
7 per call) of an average of 1,009 minutes of use per channel.  
8 This compares favorably with the 1,096 minutes of use assumed  
9 by ATU in its ESIS rate development for FX, OPX, and TL.  
10 The fact that a service is not schematically directly  
11 interface with an ATU exchange does not eliminate the indirect  
12 use of such services to by-pass MTS circuits. The Commission  
13 must conclude that the ESIS tariff properly identifies and  
14 establishes costs associated with the use of FX, OPX, and TL  
15 services. The Intervenors have failed to discredit or raise  
16 substantial questions as to the validity of the ESIS tariff.  
17 The fact that the Intervenors make use of substantial private  
18 line telecommunications does not abrogate their responsibility  
19 to assume their fair share of costs associated with their  
20 access to the ATU exchange facility. As evidenced by the  
21 record in this proceeding, this utility and all local exchange  
22 utilities within the State of Alaska must be mindful of the  
23 changing times of the telephone industry and the pressures  
24 that are coming to bear on their local exchange rates. The  
25 Commission is very much aware of the national scenario which  
26 is causing enormous economic pressures on local exchange  
27 utilities. These pressures may be vented through tariffs,  
28 such as ESIS, that gives identity to latent areas of cost.

29 The question of jurisdiction of this Commission to  
30 deal with the ESIS tariff has been raised by GSA and the  
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1 Intervenors. New York Telephone v. FCC<sup>15</sup> has been cited as  
2 the leading case on the issue of the jurisdiction of this  
3 Commission to grant approval of the ESIS tariff.

4 The only parallel between the New York case and  
5 the instant proceeding is the services of FX/CCSA. The U.S.  
6 Court of Appeals ruled that through the action of the New  
7 York Public Service Commission, a discriminatory rate involving  
8 interstate services was established and the court upheld the  
9 FCC order that prevented the New York PSC from requiring  
10 discriminatory tariffs by New York Telephone Company. The  
11 court stated:

12 In the final analysis, as at first  
13 blush, this case is really an adminis-  
14 trative jurisdictional dispute, with NYT  
15 and interstate FX and CCSA users to some  
16 extent caught in the middle. Upholding  
17 the FCC order, we force NYT to go back  
18 to the state for a new tariff that is  
19 consistent with the FCC's March 22  
20 order, as the telephone companies have  
21 done in California and Missouri cases.  
22 Of course, NYT may instead file a new  
23 tariff with the FCC, but the future  
24 Joint Board proceedings on all separa-  
25 tions procedures may delay approval for  
26 at least a year. To hold otherwise in  
27 this case would permit the PSC to export  
28 intrastate telephone costs to interstate  
29 users until separations procedures have  
30 been revised and all interests accom-  
31 modated. In the words of a dissenting  
32 PSC member, "[u]niformity in procedures  
used to allocate costs among the many  
jurisdictions involved is vital," in  
fairness to telephone company and rate-  
payer alike. (NYPSC 27469, at 6 (Larkin,  
Comm'r dissenting)). The FCC appears to  
be seeking such "separations" uniformity  
in an orderly way, used successfully for  
more than thirty years, which saves  
state and private parties alike con-  
siderable litigation expense. The PSC  
order abrogated by the FCC order which  
we affirm would do just about the opposite.

15 New York Tel. Co. v. F.C.C., 631 F.2d 1059 (1980)

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In the instant case the substantial evidence on the record supports the conclusion that ATU's ESIS filing is consistent with the separations procedures approved by this Commission and the FCC. The single pointed variation, which will be discussed below, is the use of a composite CSR in developing the SPF.

No challenge has been made to the methodology employed by the utility or the Staff. Based on this evidence the Commission finds that there is no undue discrimination and the procedures employed by the utility and Staff are consistent with the findings of the court in the New York Telephone Company case.

Having established that ATU's ESIS tariff is properly before the Commission and the methodology used to establish rates for the proposed services is nondiscriminatory, the question is which rate development approach is more appropriate and on target with the decision in the New York Telephone Company case. The utility states the composite CSR approach is the only viable method at this time while Staff argues for a separated interstate and intrastate rate approach.

In the ideal world where the universe would include total usage information availability to the utility, the Staff approach would merit serious consideration. Unfortunately, the utility is giving birth to a concept in an imperfect environment. While the Intervenor's acknowledge the availability of some traffic information, the scope and applicability of the information available leads the Commission to the conclusion that this approach would be speculative at best, with the high potential of being subjective;

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1 i.e., being supplied by the consumer of the service in  
2 question. Clearly, the utility and the Commission would  
3 require some form of verification; however, there is no  
4 evidence that such verification is possible. The Commission  
5 is aware that with changing technology the entire question  
6 of usage sensitive pricing will be a future consideration of  
7 this body as well as the utility.

8 Even if the Commission could accept the separated  
9 approach at this time, this would mandate the filing of an  
10 interstate tariff with the FCC, and as noted by the court in  
11 the New York Telephone Company decision, this would result  
12 in a considerable delay. Such a delay is not required  
13 through the adoption of the composite CSR approach. If at  
14 some point in time the FCC mandates the separated approach  
15 to the ESIS type services offered by a local exchange utility,  
16 and there is a Federal/State procedure that protects the  
17 intrastate jurisdiction, this Commission would of course  
18 reexamine the issue. The Staff has presented no compelling  
19 reason for separation at this time. Such an approach would  
20 be counterproductive and not in the public interest today.

21 On April 9, 1981, the Intervenors filed a Motion  
22 for Filing of an Otherwise Unauthorized Document. The  
23 document filed is the FCC News Release of March 13, 1981,  
24 dealing with the action of the FCC in CC Docket No. 81-161.  
25 Docket 81-161 deals with the tariff filing of the Hawaiian  
26 Telephone Company (HTC) relating to local exchange involving  
27 interstate access. The Commission will accept this document  
28 as part of the record in this proceeding but will note that  
29 the full order noted in the News Release is available to the  
30 Commission in its FCC file. The Commission can find no

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1 substance to the HTC tariff filing that would lead to a  
2 different conclusion in the instant proceeding. The fact  
3 that HTC selected the FCC as its regulatory forum does not  
4 negate the approach selected by ATU. In addition, this  
5 Commission is not privy to the possible intrastate regulatory  
6 or statutory constraints that may have led HTC to file with  
7 the FCC.

8 As previously stated, the main difference in the  
9 rate development approach advocated by the Staff and the  
10 Utility is the CSR. The utility used a composite CSR for  
11 FX, OPX, and TL and the interstate CSR for OCC. The Staff  
12 uses the same CSR for all ESIS services in developing its  
13 modified composite rate. The Staff maintains that the ATU  
14 method gives a preferential rate to the non-ESIS customers.  
15 The Commission agrees with the Staff position at this stage  
16 of developing the ESIS rates. Until such time as the utility  
17 has developed an operating history under the ESIS tariff and  
18 a national regulatory master scheme is established, it would  
19 be in the public interest to establish rates that carry no  
20 stigma of rate preference. The Commission will accept the  
21 Staff-modified composite rate as noted in schedule WJW A-1.  
22 The Commission believes the Staff rate development accurately  
23 represents the ESIS revenue requirement. The Staff total  
24 ESIS revenue requirement of \$3,2,854 results in the following  
25 rates:

|    |                       |       |
|----|-----------------------|-------|
| 26 | Foreign Exchange      | \$ 99 |
| 27 | Off Premise Extension | \$ 99 |
| 28 | Tie Lines             | \$ 99 |
| 29 | Other Common Carrier  | \$265 |

1           While the utility cost study and Staff review give  
2 the Commission confidence in the proposed rates, there is  
3 the lingering question of the rates being based on aged  
4 data. It is somewhat ironic that Alascom would raise this  
5 point as there are indications that Alascom may be a part of  
6 the problem or at least a contributor to the delay in gaining  
7 current cost information. In consideration of this problem,  
8 the Commission will consider the ESIS rates to be inception  
9 rates. The utility will be required to file annually,  
10 beginning July 1, 1982, cost information in support of its  
11 ESIS rates. No adjustment in tariff rates will be required  
12 if the cost studies show a variation of less than ±5 percent.  
13 Alascom is being requested, informally at this time, to  
14 review its procedures for cost studies and settlements with  
15 local exchange utilities with the goal of shortening the  
16 time period for approval. This problem extends beyond the  
17 instant proceeding and may call for more direct action by  
18 the Commission in a separate proceeding.

19           The Staff and Intervenors have argued that the  
20 ESIS tariff be granted on a refundable basis. The unique  
21 nature of the tariff and the aged data, it is argued, support  
22 their position. The Commission cannot concur with this  
23 position. There is no evidence that would lead the Commis-  
24 sion to the conclusion that the costs associated with ESIS  
25 will be reduced by virtue of new cost data. To the contrary,  
26 the evidence on the record shows a most conservative approach  
27 which could lead to the conclusion that new data could  
28 result in higher rates. Interim rates are designed to  
29 protect the consumer and not the utility from possible  
30  
31  
32

1 overcharge. There is no evidence to imply that this possi-  
2 bility exists in the instant proceeding. The Commission  
3 mandate that the rates are inception rates will adequately  
4 protect the utility and the consumer by forcing an annual  
5 review of them.

6 THE COMMISSION FURTHER FINDS AND CONCLUDES:

7 1. ATU is a public utility as defined in AS  
8 42.05.701 and subject to the regulatory jurisdiction of the  
9 Commission.

10 2. The cost separations study in support of  
11 tariff revision designated TA110-120 is consistent with the  
12 Separations Manual, February 1971 edition, and adopted by  
13 the Commission under 3 AAC 48.430.

14 3. The Commission has authority to grant approval  
15 of exchange access rates proposed in tariff revision desig-  
16 nated TA110-120.

17 4. Toll diversion is being experienced by ATU  
18 through access of the ATU exchange facilities by subscribers  
19 to FX, OPX, and TL services.

20 5. ATU will experience toll revenue diversion  
21 with the interconnection of OCC companies.

22 6. Toll revenue diversion constitutes an additional  
23 cost to the utility and an unfair burden to the general rate  
24 payer of the utility.

25 7. The rate development methodology, with the ex-  
26 ception of the CSR ratio used, is reasonable and results in  
27 rates that are nondiscriminatory.

28 8. ATU should use the composite CSR ratio advocated  
29 by Staff.

30 9. The ESIS tariff rates should be inception  
31 rates with provision for annual review.  
32

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1 10. The ESIS tariff rates should be nonrefundable.

2 ORDER

3 THE COMMISSION FURTHER ORDERS:

4 1. The tariff revision designated as TA110-120 by  
5 the Municipality of Anchorage d/b/a Anchorage Telephone  
6 Utility is approved subject to the conditions set out in the  
7 body of this Order.

8 2. The rates established under TA110-120 are  
9 approved as follows:

|                          |       |
|--------------------------|-------|
| 10 Foreign Exchange      | \$ 99 |
| 11 Off Premise Extension | \$ 99 |
| 12 Tie Line              | \$ 99 |
| 13 Other Common Carrier  | \$265 |

14 3. The rates established under TA110-120 are  
15 inception rates.

16 4. The Municipality of Anchorage d/b/a Anchorage  
17 Telephone Utility shall file annually cost information in  
18 support of the rates approved under TA110-120. No tariff  
19 revision will be required if as a result of the cost infor-  
20 mation the rate variation is less than 15 percent.

21 5. The Municipality of Anchorage d/b/a Anchorage  
22 Telephone Utility shall file revised tariff sheets consistent  
23 with this Order within 30 days of the date of this Order.  
24 Each tariff sheet effected shall clearly note that the rates  
25 are "INCEPTION RATES SUBJECT TO ANNUAL REVIEW."

26 DATED AND EFFECTIVE at Anchorage, Alaska, this 26th day of  
27 June, 1981.

28 BY DIRECTION OF THE COMMISSION  
29 (Commissioner Susan M. Knowles, not participating)

30  
31 (S E A L)

32 U-80-42(3)  
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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Carolyn S. Guess, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall

In the Matter of the Filing of )  
a Tariff Revision, Designated as ) U-80-100  
TA26-121, by the MUNICIPALITY OF )  
ANCHORAGE d/b/a MUNICIPAL LIGHT & ) ORDER NO. 5  
POWER DEPARTMENT for an Interim )  
and Permanent Rate Increase )  
\_\_\_\_\_ )

ORDER EXTENDING SUSPENSION PERIOD

On May 18, 1981, the Commission issued a Bench Order in this proceeding granting the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT (ML&P) an across-the-board increase of 28.06 percent to its existing recurring permanent rates for billings on or after June 1, 1981. The Commission indicated that that action was taken prior to issuance of its formal order setting forth its findings of fact and conclusions of law in order to accommodate the then pending \$14 million bond sale by ML&P. In view of the workload of the Commission at this time and the varied issues involved in this proceeding, the Commission finds that the suspension period for TA26-121 must be extended in order for all the issues to be adequately addressed. The interests of the utility and of the consumer are protected by virtue of the 28.06 percent increase granted in the May 18, 1981, Bench Order.

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1 STATE OF ALASKA

2 THE ALASKA PUBLIC UTILITIES COMMISSION

3 Before Commissioners: Carolyn S. Guess, Chairman  
4 Marvin R. Weatherly  
5 Susan M. Knowles  
6 Stuart C. Hall

7 In the Matter of the Filing of a )  
8 Special Contract Between the ) U-78-85  
9 MUNICIPALITY OF ANCHORAGE d/b/a )  
10 MUNICIPAL LIGHT & POWER DEPARTMENT) ORDER NO. 6  
11 and the UNITED STATES OF AMERICA )  
12 d/b/a FEDERAL AVIATION ADMINI- )  
13 STRATION )

14 ORDER CLOSING DOCKET

15 The Commission finds that all outstanding procedural  
16 and substantive matters have been disposed of in the above-  
17 captioned proceeding and there are no allocable costs under  
18 AS 42.05.651 and 3AAC 48.150(n)-(1). Accordingly, this  
19 Docket should be closed.

20 ORDER

21 THE COMMISSION FURTHER ORDERS, That, Docket U-78-85 is  
22 closed.

23 DATED AND EFFECTIVE at Anchorage, Alaska, this 21st day of  
24 July, 1981.

25 BY DIRECTION OF THE COMMISSION  
26 (Commissioner Stuart C. Hall, not participating)

27 ( S E A L )  
28  
29  
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31

32 U-78-85(6) 7/21/81  
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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

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Before Commissioners: Carolyn S. Guess, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall

In the Matter of the Filing of )  
a Tariff Revision, Designated as ) U-80-100  
TA26-121, by the MUNICIPALITY OF )  
ANCHORAGE d/b/a MUNICIPAL LIGHT & )  
POWER DEPARTMENT for an Interim ) ORDER NO. 6  
and Permanent Rate Increase )  
\_\_\_\_\_ )

ORDER AFFIRMING BENCH ORDER GRANTING  
RATE INCREASE; ESTABLISHING REVENUE REQUIREMENT  
AND REQUIRING COST-OF-SERVICE STUDY

On October 24, 1980, the MUNICIPALITY OF ANCHORAGE  
d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT (ML&P) filed a  
tariff revision, designated as TA26-121, requesting across-  
the-board interim and permanent rate increases of 23.31 per-  
cent (\$3,887,225 in additional revenues). Further, the  
filing requested that the utility be allowed to:

1. use a 1.406 proforma debt service coverage ratio  
which is based on maximum future debt service coverage;
2. implement a \$15 connection charge when permanent  
rate relief is granted. The connection charge reflects  
changes in the currently effective schedule of fees and  
charges and Tariff Rule 7.13. (ML&P Tariff Sheets 29,  
42, 43 and 100); and
3. delete Rule 7.4 Primary Metering Discount. (ML&P  
Tariff Sheet No. 43).

The filing was noticed to the public on October 31,  
1980, with a closing date of November 28, 1980, for the  
filing of statements in support of, or in opposition to, the

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1 proposed tariff revision. The Commission received letters  
2 from Messrs. Carmen Smith and J. P. Burrell opposing the  
3 increase and expressing general dissatisfaction with the  
4 utility's operations. A third response was filed by the  
5 Coalition for Economic Justice requesting that the increase  
6 be denied unless a lifeline rate was incorporated into the  
7 overall rate structure.

8 Order No. 1, issued December 30, 1980, suspended  
9 the operation of TA26-121 for an initial six-month period  
10 ending June 30, 1981, to allow the Commission Staff (Staff)  
11 an opportunity to adequately investigate the tariff revision  
12 request. That Order also granted ML&P an interim refundable  
13 rate increase of 23.07 percent and required the utility to  
14 file by February 15, 1981, a permanent revenue requirement  
15 based on a 1980 test year, in accordance with the filing  
16 requirements of 3 AAC 48.275. This requirement was based on  
17 the fact that an across-the-board increase of only 3.46 per-  
18 cent was supportable by the utility's initial filing.  
19 However, Staff had access to operating results for the  
20 ten-month period ending October 31, 1980, and determined  
21 that the 1979 test year filing was not representative of  
22 ML&P's actual financial position. Staff's observation was  
23 that an increase of substantially more than 3.46 percent  
24 would be needed in order for the utility to avoid default on  
25 its bond covenants. Order No. 1 also designated the Staff  
26 as a party to this proceeding.

27 The supplemental filing, received on February 17,  
28 1981, requested a permanent rate increase of 29.56 percent  
29 plus a roll-in of an 11.27¢/MCF increase in the base price  
30 of natural gas. The filing also requested the addition of a  
31  
32

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1 Fuel Oil Cost Rate Adjustment (FOCRA) to its tariff and the  
2 revision of its gas cost rate adjustment clause (GCRA) to  
3 reflect a base cost of gas at 88.31¢/MCF.

4 The supplemental filing was noticed to the public  
5 on March 5, 1981. Although no letters of protest were  
6 received regarding the filing supplement, on March 31, 1981,  
7 the Alaska Consumer Advocacy Program (ACAP) filed a Petition  
8 To Intervene in this proceeding. In its petition ACAP  
9 stated, among other things, that it was a State-funded  
10 project designed to represent consumer interests before  
11 State regulatory commissions and that ACAP's interests could  
12 only be protected by being allowed intervention in this  
13 proceeding since none of the existing parties "strictly  
14 advocate the consumer interest." ACAP Petition, p. 1.

15 Order No. 2, dated March 20, 1981, scheduled a  
16 public hearing in this proceeding on April 28, 1981, in the  
17 Commission's hearing room. Order No. 2 also established the  
18 schedule for the submission of witness lists and written  
19 testimony by the utility and Staff. That schedule was  
20 subsequently modified by Order No. 4 to allow ML&P to late  
21 file the testimony of Mr. Walter Filkin, an expert on the  
22 tax-free municipal revenue bond market, and to concurrently  
23 grant an extension of time to Staff to prepare testimony  
24 with respect to Filkin's testimony.

25 With regard to ACAP's Petition To Intervene, the  
26 Commission in Order No. 3, issued April 1, 1981, stated  
27 that:

28 The ACAP Petition To Intervene lacks the specificity  
29 that is demanded by 3 AAC 48.110(c) and fails to meet  
30 the standard set out in U-77-1b(2). Order No. 3, p. 4.

31 Therefore, the Commission rejected the petition without  
32 prejudice.

1                   On April 21, 1981, ACAP filed Formal Written  
2 Comments regarding the proposed tariff revision. ACAP cited  
3 eight areas of concern with regard to TA26-121. It was  
4 ACAP's contention that:

5           1. Residential consumers pay a disproportionately  
6 higher share of increased consumption costs than do  
7 industrial and commercial users, and this would be  
8 exacerbated by the proposed rate increase. Therefore,  
9 the Commission should institute a rate reassign pro-  
10 ceeding addressing ML&P's electric rates;

11           2. ML&P's equity pay out under Municipal Ordinance  
12 AO-94-76-A is unfair and unreasonable because it places  
13 an unreasonable and excessive burden on ML&P's capital  
14 structure. Therefore, the Commission should eliminate  
15 or substantially reduce the equity pay out;

16           3. ML&P should not be allowed to modify to 60/40 the  
17 hypothetical debt/equity ratio of 70/30 established in  
18 U-76-11. ACAP asserted that the 70/30 ratio is more  
19 realistic and does not place an undue burden on rate-  
20 payers;

21           4. The cost of diesel fuel to ML&P is relatively  
22 small, and the FOCRA should not be implemented at this  
23 time;

24           5. Tariff Rule 7.12, Change of Occupancy, is vague  
25 and should be modified to define "reasonable notice" to  
26 the utility. ACAP recommended use of a 24-hour notice  
27 requirement as reasonable notice;

28           6. ML&P's revenue calculations do not include tax  
29 savings as contemplated by Senate Bill 125. ACAP  
30 asserted that these savings should result in a lower  
31 revenue requirement;  
32

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1 7. ML&P's "Other Interest Expense" has increased  
2 substantially and should be carefully examined; and  
3 8. The amount of ML&P's uncollectible accounts has  
4 also increased, and the reasons therefor should be  
5 examined.

6 The Commission convened in public hearing at  
7 9:00 a.m., April 28, 1981, in the Commission's office for  
8 the purpose of taking testimony regarding ML&P's proposed  
9 tariff revision, TA26-121. The hearing also continued on  
10 April 30 and May 1, 1981. The hearing was conducted before  
11 Commissioner Marvin R. Weatherly, serving as Presiding  
12 Officer; Commissioners Carolyn S. Guess, Chairman; and  
13 Stuart C. Hall.

14 ML&P was represented by its attorney Roger M.  
15 Kempel and presented the following company witnesses:  
16 Richard O. Fry, Financial Services Manager, ML&P; Thomas R.  
17 Stahr, General Manager, ML&P; Max Foster, Revenue Require-  
18 ments Supervisor, ML&P; John Parisena, Audit Manager, Arthur  
19 Young & Company; and Walter W. Filkin of Van Kampen, Filkin  
20 & Merrit, Inc., investment bankers.

21 Staff was represented by its counsel, C. Barclay  
22 Jones, Assistant Attorney General, and presented as witnesses:  
23 Carolyn L. Evans, Utility Financial Analyst III; and Robert J.  
24 Barber, Utilities Engineer III.

25 Also attending the hearing were several of the  
26 utility's consumers, members of the media, and ACAP, repre-  
27 sented by its attorney and director, Deborah Lee Williams.

28 On May 6, 1981, ACAP filed Post-Hearing Written  
29 Comments which requested, among other things, that the Com-  
30 mission grant ML&P an increase of not more than 24.24 per-  
31 cent.  
32

1           On May 18, 1981, the Commission issued a Bench  
2 Order in this proceeding acknowledging the necessity for  
3 priority action in establishing permanent rates for ML&P  
4 before June 1, 1981, in order for the utility to be able to  
5 sell a \$14 million bond issue. The Bench Order granted the  
6 utility an across-the-board 28.06 percent increase to its  
7 existing recurring permanent rates, effective for billings  
8 rendered on or after June 1, 1981. The Bench Order also  
9 notified the parties that the Commission would subsequently  
10 issue a formal order setting forth its findings of fact and  
11 conclusions of law regarding the 28.06 percent permanent  
12 rate increase.

13           Because of the pressing workload of the Commission,  
14 Order No. 5 extended the suspension period in this proceeding  
15 until September 1, 1981.

16                           REVENUE REQUIREMENT

17           During the hearing ML&P amended its request for a  
18 permanent rate increase to reflect a decrease in operating  
19 expenses as a result of HCSSB 125, sec. 2 Ch 6 SLA 1981.  
20 The revised revenue requirement, \$24,013,357 for the test  
21 year ended December 31, 1980, was supported by Staff. In  
22 its post hearing comments ACAP proposed a reduction in the  
23 utility's revenue requirement to decrease depreciation  
24 expense and the return on rate base.

25                           Operating Expenses

26           Under cross-examination, Staff witness Evans  
27 responded to questions raised by ACAP in its Formal Written  
28 Comments. The categories of operating expenses targeted by  
29 ACAP as questionable because of their percentage increase  
30 over 1979 costs were examined by Evans during the Staff's  
31 audit. The Commission is satisfied by Staff response that  
32

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1 the increases in transmission, administrative and general  
2 and uncollectible account expenses are substantiated and  
3 reasonable. In addition, the Commission agrees that the  
4 request of ML&P to reflect a base price of gas at 88.31¢/MCF  
5 for the 1980 test year conforms to Commission policy.

6 Depreciation

7 In the utility's filing, the asset lives of the  
8 Steam Production Plant and Account 392, General Plant, were  
9 not in compliance with Commission Order No. 10 in U-76-11.  
10 In his pre-filed testimony, Staff witness Barber recommended  
11 that the Commission affirm its decision in that Docket which  
12 provided for the use of the mid-point of the IRS depreciation  
13 guidelines for all plant categories except Account 343, gas  
14 turbines, absent a depreciation study. Because Staff believed  
15 the amount of its proposed adjustment to depreciation expense  
16 would not have a material effect on the utility's revenue  
17 requirement, Staff recommended that future proceedings should  
18 reflect the depreciation lives established by U-76-11(10).

19 The utility defended its proposed asset life of  
20 the Steam Production Plant through testimony of General  
21 Manager Stahr. He testified that because the steam plant  
22 and gas turbine are operated together, i.e., absent the gas  
23 turbine the steam plant does not function, a uniform life  
24 for both is reasonable. Stahr did acknowledge that the  
25 steam plant has a longer life than the gas turbine. When  
26 questioned about replacing the gas turbine and thereby  
27 continuing the usefulness of the steam plant, he stated that  
28 in consideration of the Fuel Use Act and the uncertainty of  
29 available natural gas supplies in 15-16 years, there is no  
30 guarantee that a replacement gas-fired unit would be purchased.  
31 In Stahr's judgment, when the gas turbine is retired, the  
32 steam plant will not be useful.

1           During cross-examination Staff did agree that the  
2 operation of the steam plant depends on the existence of the  
3 gas turbine. The steam plant was not included on the depreci-  
4 ation schedule in U-76-11; and there has been no depreciation  
5 study performed on either of these units. Therefore, Staff,  
6 in compliance with the previous Commission decision, recommended  
7 a useful life of 28 years as opposed to 16 2/3 years proposed  
8 by ML&P.

9           The effect of Staff's proposal to adjust the  
10 depreciation life of the steam plant represents approxi-  
11 mately 1 percent of the revenue requirement. The Commission  
12 concurs that for the purpose of this proceeding no adjust-  
13 ment to the revenue requirement is warranted. However, the  
14 issue of the appropriate life for the steam plant requires  
15 resolution. The Commission is persuaded, at this time, that  
16 the utility' argument in support of a uniform life for the  
17 steam plant and the gas turbine is reasonable. Since the  
18 Commission accepted a shorter life for the gas turbines in  
19 U-76-11 because they are used as base load rather than for  
20 peaking, it follows that the shorter life for the Steam  
21 Production Plant Account is consistent. It may be, con-  
22 sidering the testimony of Stahr regarding the dilemma facing  
23 the utility in maintaining continuing property records of  
24 its generation plant, that a depreciation study should be  
25 undertaken. The Commission is hesitant to order a study at  
26 this time because of the financial position of the utility.  
27 It will reserve the right to do so in the future, however,  
28 and to adjust the lives of the gas turbines and steam plant  
29 accordingly.

30 Rate of Return

31           The utility presented two witnesses, Frye and  
32 Foster, to support its request that a hypothetical capital

1 structure of 60 percent debt and 40 percent equity be granted  
2 in this proceeding. The utility test year capital structure  
3 of 7.0446 percent debt and 15 percent equity, allowed in  
4 U-79-13, results in a weighted cost of capital of 10.2267 per-  
5 cent. The utility testified that an appropriate rate of  
6 return must be determined by ML&P's ability to attract new  
7 debt capital. It contended that its requested return would  
8 allow ML&P to sell \$14 million of revenue bonds which is  
9 required to finance the immediate construction needs of the  
10 utility. Without revenue from the bond sale the utility  
11 testified that the planned construction could not proceed.

12 General Manager Stahr testified that the proposed  
13 improvements are in three areas; transmission, distribution  
14 and general plant. The transmission improvements, he stated,  
15 are to increase reliability and reduce line loss. The major  
16 distribution improvements are needed to gradually retire the  
17 distribution voltage in the older area of town, i.e., the  
18 downtown business area, in order to serve the large com-  
19 mercial buildings planned in the area defined as bounded by  
20 Third Avenue to the north, Sixth Avenue to the south, Gambell  
21 Street to the east, and L Street to the west. In addition,  
22 the airport area will also receive distribution improvements.  
23 Stahr testified that major expenditures for main generating  
24 units were not proposed at this time; however, both generation-  
25 related expenditures and monies for the engineering required  
26 to determine the utility's next peaking unit would emanate  
27 from the proposed bond sale. Stahr stated that the priori-  
28 ties of the ML&P customers he has talked to are reliability  
29 of service and undergrounding of the distribution system.  
30 He conceded that the consumers want good electric service at  
31 the lowest possible cost but paramount in their mind is  
32 reliable service; and he testified he believes they are

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1 willing to pay for it. In his pre-filed testimony, Stahr  
2 discussed the past decisions of ML&P to hold rates down at  
3 the expense of building equity. Today, however, the utility  
4 has found that while attractive in the short run, this  
5 philosophy can be financially disastrous and must be changed.  
6 His testimony supported that of financial witnesses Foster  
7 and Frye that the downward equity spiral of ML&P since 1976  
8 must be reversed.

9 ML&P has suffered equity attrition in every year  
10 except 1978 for the last five years. According to witness  
11 Foster, ML&P's equity capital was 21.1 percent in 1976 and  
12 during the test year it was 11.6 percent. Foster recalled  
13 that in Docket U-79-13, the last permanent rate request of  
14 ML&P, the return requested and granted was derived after  
15 determining the debt service coverage required to sell  
16 additional revenue bonds and noted the similarity to the  
17 instant proceeding. Foster noted that because the rate base  
18 is considerably larger than that in 1978, the utility has  
19 requested the same return on equity (15 percent) allowed in  
20 U-76-11

21 Frye's pre-filed testimony provided historic and  
22 future calculations of debt service coverage which supported  
23 the utility's contention that in order to market its \$14 million  
24 bond issue, a permanent rate increase in the magnitude of  
25 the utility's request was "badly needed." Frye also indicated  
26 his concern about the deterioration of ML&P's equity ratio  
27 during the last five years and the need for ML&P to increase  
28 its DSC in order to keep its Baa bond rating. Foster as  
29 well as Filkin discussed the relationship between the interest  
30 rate to be paid on a bond issue and the bond rating of the  
31 utility. Both argued that a higher bond rating is more  
32 beneficial to the consumer because the resultant interest  
rate is generally lower.

1           In her pre-filed testimony, Staff witness Evans  
2 testified that the application of any return on equity to a  
3 municipal entity is a misconstruction of the theory behind  
4 fair and reasonable rates. Therefore, the Staff supported  
5 ML&P's revenue requirement based on the necessary debt  
6 service coverage required to improve and stabilize the  
7 debt/equity ratio of ML&P. Under cross-examination, as well  
8 as in her pre-filed testimony, Evans presented a very thought-  
9 ful, articulate analysis to support Staff's position. Since  
10 ML&P's financing is primarily dependent on its ability to  
11 attract debt at the lowest possible interest rate, its rate  
12 of return should be based on the demands of debt financing.  
13 As a municipal utility the equity of ML&P is provided through  
14 retained earnings. Therefore, in the traditional sense,  
15 ML&P does not have to attract equity capital nor be concerned  
16 with withdrawal of present equity by stockholders. Thus,  
17 Evans stated, "any argument based on a return on equity to  
18 ML&P is academic--it is not relevant to the actual situation."  
19 Staff believes its method of determining a reasonable return  
20 to be more appropriate to ML&P's situation.

21           In discussing its proposed alternative to the  
22 traditional rate of return calculation, Staff testified that  
23 ML&P must be able to meet all the requirements of its current  
24 bond covenants and maintain financial stability in order to  
25 sell additional revenue bonds. This does, according to  
26 Staff, present two problems that should be addressed. One,  
27 in order to provide revenue sufficient for DSC in advance of  
28 a bond sale, rates must be raised before ML&P becomes liable  
29 for the debt service. Thus, a 1.25 DSC on proforma debt  
30 must be used to establish the revenue requirement. Two,  
31 this results in the current ratepayers providing monies for  
32 not only plant under construction but also before construction

1 of new plant has begun. Staff observed that the general  
2 policy of the Commission, in the traditional rate of return  
3 scenario, has been to disallow a return on construction work  
4 in progress. In spite of these problems, Staff believes  
5 that debt service coverage is the appropriate basis for  
6 determining ML&P's revenue requirement.

7 If its approach to the appropriate return for ML&P  
8 is accepted, Staff believes there should be a control mechanism  
9 to ensure that the debt incurred by the utility is reasonable  
10 and required. Staff recommended that a review of ML&P's  
11 construction practices be performed by a Staff consultant to  
12 determine that the construction planning procedures and  
13 decisions of the utility do not allow for unnecessary or  
14 cost ineffective expenditures of monies.

15 Because Staff believes it is necessary to rebuild  
16 ML&P's equity, it recommended a DSC of 1.48 which supports  
17 the utility's revenue requirement. In addition, Staff  
18 recommended that ML&P be required to capitalize interest on  
19 its current and future construction because it would pos-  
20 itively affect the equity position of the utility and because  
21 it reduces the amount of interest expensed, which in turn  
22 reduces the revenue requirement; this practice would benefit  
23 current ratepayers without affecting future ratepayers.  
24 However, Staff noted this recommendation and its support  
25 assumes rates based strictly on DSC. A reversion to trad-  
26 itional ratemaking standards, i.e., return on rate base,  
27 would mean that capitalization of interest would seriously  
28 affect rates. In addition, Staff testified that in October,  
29 1979, the Financial Accounting Standards Board issued its  
30 Statement No. 34 which made capitalization of interest a  
31 generally accepted accounting principle.  
32

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1 Staff also recommended that a restriction of  
2 dividends paid to the Municipality of Anchorage be placed  
3 upon ML&P until it achieves an 80/20 debt/equity ratio.  
4 Staff prepared a proforma effect of its recommended rate  
5 increase on retained earnings after one year if ML&P's  
6 interest was capitalized and no dividend accrued to the old  
7 city service area. The result, according to Evans, would be  
8 an anticipated debt/equity ratio of 88/12.

9 Two of Staff's recommendations, a construction  
10 practices review and a restriction on dividend pay out,  
11 evoked response from the utility under cross-examination and  
12 in its closing statement. General Manager Stahr stated that  
13 he believed the Staff recommendation for a "limited management  
14 audit of construction practices" was unnecessary because it  
15 is duplicative of the review and analysis required to receive  
16 an independent engineer's certification, a prerequisite  
17 before prospective bonds can be sold. A certified profes-  
18 sional engineer must attest to the need for, and the costs  
19 associated with, the projected facilities. Stahr testified  
20 that the utility was willing to provide any available docu-  
21 mentation the Staff would require in order to satisfy itself  
22 that a prospective bond sale was in the public interest and  
23 necessary to provide reliable service to the utility's  
24 service area. In addition, testimony was received that a  
25 lengthy review process both internal to the utility and  
26 within the municipal administration addresses the need for  
27 the proposed construction. In addition, the Advisory  
28 Committee of the utility as well as the Borough Assembly  
29 must approve a prospective bond sale.

30 Staff Engineer Barber was questioned regarding the  
31 need for a review of construction practices of the utility  
32 from a technical standpoint. He indicated that, in his

1 opinion, neither unnecessary facilities nor unreasonable  
2 costs were associated with the proposed bond sale. As an  
3 engineer, he stated he would accept the opinion of the  
4 independent professional engineer who certified that con-  
5 struction is needed and well-planned. Barber testified he  
6 was never denied access to any information of the utility.  
7 In conjunction with Docket U-71-16, In the Matter of Elimin-  
8 ating Undesirable Duplication of Facilities and Competition  
9 between the Municipality of Anchorage d/b/a Municipal Light  
10 and Power Department and Chugach Electric Association, Inc.,  
11 he has had occasion to review the ML&P system and feels that  
12 its records are generally complete. Further, he stated that  
13 the Staff consultants in U-71-16 have received cooperation  
14 from the utility.

15 In its formal Written Comments and in its testimony  
16 during the proceeding, ACAP supported a return based on a  
17 hypothetical capital structure of 70/30 in accordance with  
18 U-76-11. It acknowledged the need to have sufficient debt  
19 service coverage for the forthcoming bond sale; however, its  
20 calculations of that coverage included income which both  
21 Staff and the utility disallowed in calculating the DSC  
22 required. ACAP did not support the Staff's recommendation  
23 for a limited review of the construction practices as it  
24 believed it would not accomplish Staff's intent.

25 By granting the utility's revised revenue require-  
26 ment, either ratemaking methodology presented in this pro-  
27 ceeding would substantiate the results. It can be argued  
28 that a hypothetical capital structure of 60/40 with a rate  
29 of return on equity at 15 percent will yield the same revenue  
30 requirement as a debt service coverage of 1.48 on the antici-  
31 pated future bond sales of the utility.  
32

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1           At this point in time the Commission is persuaded,  
2 for a number of reasons, that the approach taken by Staff  
3 which establishes debt service coverage to attract new debt  
4 and improves the utility's equity position is logical and  
5 reasonable. The Commission believes that the utility must  
6 maintain or improve its current bond rating in order to  
7 attract debt at the lowest possible interest rate and that  
8 revenues in excess of the 1.25 bond covenant requirements  
9 will assist the utility in stabilizing and improving its  
10 equity position. The Commission would reiterate today what  
11 it stated in U-76-11(10), p. 6:

12           The continued financial liability and stability of ML&P  
13 is of overriding concern to this Commission.

14           By accepting the DSC approach in the instant  
15 proceeding, the Commission is not foreclosing the more  
16 traditional rate of return approach to ratemaking in the  
17 future, should circumstances warrant. There could be a  
18 point in time when facilities could be financed, in part,  
19 through retained earnings, and an examination of the actual  
20 capital structure and return on equity at that time might be  
21 appropriate. The Commission has the discretion to allow DSC  
22 for future bond coverage requirements as established by the  
23 Alaska Supreme Court in Alaska Public Utilities Commission v.  
24 Municipality of Anchorage, 555 P.2d 262 (Alaska, 1976).  
25 The Commission believes the exercise of its discretion in  
26 this proceeding is in the public interest. The Commission  
27 will not unequivocally, however, bind itself to the DSC  
28 approach for future proceedings: what is optimum today could  
29 be less than optimal tomorrow depending on the financial  
30 marketplace, the capital structure and other circumstances  
31 relevant to ML&P. The Commission finds it helpful in approving  
32 the DSC approach to use the traditional rate of return  
methodology as a check and balance.

1 In approving the DSC approach in this proceeding  
2 and because of subsequent events that have transpired since  
3 the issuance of its Bench Order, there is a matter of concern  
4 that must be addressed; and that is, when should rates  
5 established, in part, on DSC of future bond sales go into  
6 effect. In this instance, the rates went into effect on  
7 June 1, 1981, the deadline ML&P's management testified was  
8 necessary in order for it to market the proposed bonds. On  
9 June 6, 1981, the Commission received a letter from Financial  
10 Services Manager Frye which stated in part:

11 Unfortunately right at this time the bond  
12 market is so bad (we estimate we would have  
13 to pay in excess of 12 percent interest  
14 today) that we are proceeding to arrange  
interim short term financing with the Municipality of Anchorage.

15 We are preparing for the bond sale and as  
16 soon as market conditions improve to a  
satisfactory interest rate we will be ready to go to sale.

17 If the Municipal Bond Market should continue to be adverse for several months  
18 there are two other alternates which we  
19 could look at. One would be to market  
20 short term bond anticipation notes and  
21 the other would be to split the \$14,000,000  
bond sale into two sales with hopefully the  
second sale being made in better market  
conditions.

22 The Commission has received no additional communication  
23 from the utility indicating whether or not the bonds  
24 have been sold and at what interest rate or which of the  
25 other alternatives available to ML&P has been pursued,  
26 absent a bond sale. In addition the Commission became aware  
27 on June 17, 1981, that the Municipality of Anchorage had  
28 applied for direct loan assistance under the Coastal Energy  
29 Impact Program (CEIP) for transmission, distribution and  
30 service plant projects of ML&P. The revenue requirement  
31 approved by the Commission in this proceeding assumes a  
32 10 percent interest rate on the prospective \$14 million bond

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1 sale. The Commission must require documentation indicating  
2 what interest rate is being paid on what amount of funds  
3 from what source in order to determine whether the utility  
4 is recovering more through its rates than its expenses. In  
5 addition, an explanation of whether the CEIP loan application  
6 is in addition to or a replacement for the proposed bond  
7 revenues is required. All relevant data including estimated  
8 time frame for a decision on the loan application and antici-  
9 pated interest rate should be provided. This information  
10 should be provided to the Commission as soon as possible and  
11 not later than two weeks from the date of this Order.

12 In the next proceeding of this utility involving a  
13 request for a general rate increase in order to market  
14 prospective bonds, the Staff and the utility should address  
15 what mechanism should be established to ensure that rates  
16 based on a prospective bond sale are not prematurely put  
17 into effect.

18 The Commission would observe that ML&P's last two  
19 requests for permanent rate relief have not been timely  
20 filed in light of the requirement of the utility to have in  
21 effect permanent rates before proposed revenue bonds can be  
22 sold. In both instances, the Commission received and re-  
23 sponded to requests for expedited consideration. The Commis-  
24 sion is concerned that this practice not become a habit in  
25 light of its continuously pressing workload and its responsi-  
26 bility to give equitable consideration to matters concerning  
27 all utilities under its jurisdiction. Therefore, it will  
28 expect that any future permanent rate requests required  
29 prior to a prospective revenue bond sale will take into  
30 account the six-month statutory time frame provided for  
31 Staff audit, analysis and Commission decision.  
32

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1           In accepting the DSC approach, the Commission must  
2 decide whether the recommendation of the accounting Staff to  
3 require a management practices review relative to construction  
4 practices should be instituted. From a theoretical perspective  
5 one could immediately answer affirmatively because utility  
6 consumers are paying rates that include interest on bonds,  
7 the proceeds of which are not represented by plant that is  
8 used and useful at the time the rates are approved. AS  
9 42.05.441. It can certainly be argued that protection from  
10 unnecessary or duplicative expenditures is warranted. The  
11 question that arises is, would a review such as that contem-  
12 plated by the accounting Staff accomplish the contemplated  
13 result. If the investigation is focused properly and if the  
14 practices and personnel subject to review remain constant  
15 subsequent to the investigation, one might agree that this  
16 review could accomplish its goal.

17           From a practical perspective, however, one could  
18 argue this type of management review is not necessary, is an  
19 unnecessary expenditure of funds and may not accomplish its  
20 intended results. A review at one particular point in time  
21 will not provide the assurance that the public will be  
22 protected from unjustified construction practices, proce-  
23 dures or expenses. To continuously monitor ML&P's construc-  
24 tion practices and procedures is impractical from a time and  
25 financial standpoint. In this proceeding there is no "red  
26 flag" or other indicator that either the bond sale of 1979  
27 or the one scheduled for June, 1981, is unnecessary or  
28 ill-conceived. An extensive review process of the utility's  
29 future construction plans has been undertaken because of the  
30 requirement that it attract capital from the sale of revenue  
31 bonds. A professional engineer has certified that the  
32 revenues from the proposed bond sale are needed to build

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1 necessary facilities; from a technical standpoint there has  
2 been no question of the integrity of the utility's system.

3 The Commission is persuaded that it is not nec-  
4 essary at this time to require a review of the utility's  
5 construction practices and procedures. The Commission  
6 acknowledges and understands the rationale of the accounting  
7 Staff because of its advocacy of permanent rates which  
8 include pre-construction and construction work in progress.  
9 The Commission does believe, however, that the Staff and the  
10 utility should explore possible alternatives to a formal  
11 review of construction practices to provide the checks and  
12 balances, from a practical standpoint, that the DSC approach  
13 implies is desirable. This could take the form of involving  
14 the Staff in the documentation and planning for future bond  
15 sales; it could include the certified professional engineer's  
16 report in the utility's filings before the Commission; it  
17 could provide to the Commission the minutes of the ML&P  
18 advisory committee's deliberation on the necessity for  
19 future bond sales and it could provide an independent review  
20 of the utility's construction practices and procedures,  
21 initiated by the utility and submitted to the Commission  
22 prior to the next bond sale. Because the Commission does  
23 not accept the Staff recommendation in the instant pro-  
24 ceeding does not necessarily mean that this same position  
25 will prevail in the future. What triggers confidence today  
26 in ML&P can be undone tomorrow, and this Commission will  
27 continue to react when the occasion demands in order to  
28 protect the ratepayers of a utility and the public interest.

#### 29 DIVIDEND PAY OUT

30 Since the Charter of the Municipality of Anchorage  
31 was approved in 1975, the Commission and its Staff have  
32 become quite familiar with its provisions regarding the

1 obligation of the municipal utilities to reimburse the old  
2 City of Anchorage service area because of the financial  
3 investment made by the former City in the respective municipal  
4 utilities. Discussion of the effect of the requirements of  
5 the Charter to pay out the net profits from the operation of  
6 ML&P for the benefit of the former City of Anchorage service  
7 area for a period of five years after ratification of the  
8 Charter has been addressed in Dockets U-76-11 and U-79-13.  
9 Underlying previous Commission action with respect to the  
10 obligation of ML&P to the former City of Anchorage service  
11 area was the Commission's concern to improve the financial  
12 health of ML&P by increasing its equity position. While a  
13 highly desirable goal, in reality, it has not been achieved.  
14 As a result of the accumulated pay out of dividends by ML&P  
15 over the last five years, the equity position of the utility  
16 has deteriorated, and its financial health has worsened.

17 In response to inquiries from the hearing panel  
18 ML&P provided Exhibit 3 (appended as Attachment 1 to this  
19 Order) which documented the history of the cash dividend pay  
20 outs to the old City service area by ML&P since 1976. Under  
21 cross-examination and in its closing statement, the utility  
22 acknowledged that it and the municipal administration could  
23 support a rationale that the dividend obligation of the  
24 utility under the Charter has been satisfied. In addition,  
25 ACAP urged the Commission to rule that the dividend obliga-  
26 tion of the utility to the old City service area had been  
27 satisfied thereby giving the utility the opportunity to  
28 improve its equity position.

29 The Commission believes that the intent of the  
30 Charter has been satisfied with respect to the dividend  
31 obligation of ML&P as substantiated by the record of divi-  
32 dend payments to the former City service area by the utility

1 over the past five years. This determination together with  
2 the revenue requirement affirmed in this Order, should  
3 assist the utility, barring any unforeseen circumstances, to  
4 reverse its attrition of earnings and to begin to improve  
5 its equity position immediately. The Commission will require  
6 that ML&P report its actual capital structure and percentage  
7 of change from the previous year to the Commission at the  
8 time it files its annual report.

#### 9 OTHER TARIFF CHANGES

10 The Staff concurred with the utility's request to  
11 delete Rule 7.4 Primary Metering Discount. This is a house-  
12 keeping item, and the Commission will approve the utility's  
13 request.

14 In its review of the utility's request to implement  
15 a \$15 connection charge, the Staff concurred that the proposed  
16 charge is reasonable in light of current labor rates and  
17 practices of other utilities. Staff and ML&P agreed that a  
18 further revision to Rule 7.13 should be made to clarify the  
19 utility's actual intent regarding agreements between it and  
20 the owners of rental property. The Commission will accept  
21 the revision that is stated on Staff witness Barber's pre-  
22 filed testimony, pages 5 and 6.

#### 23 FUEL OIL COST RATE ADJUSTMENT

24 In its supplemental filing of February, 1981, ML&P  
25 requested the Commission to approve a fuel oil cost rate  
26 adjustment (FOCRA) to its tariff. The Commission in Doc-  
27 ket U-75-21(6) denied the request of ML&P to allow a fuel  
28 cost adjustment clause in its tariff which included diesel  
29 fuel. The Commission's reasoning was that the cost of fuel  
30 should be a significant portion of a utility's operating  
31 expenses before a fuel cost adjustment clause is approved,  
32 and it was not a significant portion of ML&P's operating  
expenses at that time.

1           The utility, in the instant filing, argues that  
2 the situation facing ML&P today has changed dramatically  
3 since the issuance of Order No. 6 in U-85-21. ML&P alleges  
4 that the cost of diesel has substantially increased; that  
5 the delivery of natural gas to ML&P was curtailed in December  
6 of 1980; that curtailment could happen in the future; and  
7 because these conditions have a significant effect on the  
8 operating expenses of the utility, the establishment of an  
9 FOCRA is warranted. The utility also testified that diesel  
10 fuel was used during the year to test its backup generation.  
11 However, ML&P could not quantify the expense associated with  
12 this procedure or how often its diesel-fired generators were  
13 tested. Utility witness Foster in his pre-filed testimony  
14 indicated that the methodology proposed by ML&P to establish  
15 an FOCRA would have to be modified if the Commission accepted  
16 the request of Alaska Gas and Service Company (AGAS) to  
17 revise its gas flow through clause. The Commission, subse-  
18 quent to the hearing in the instant proceeding, has accepted  
19 the AGAS request.

20           Both the Staff and ACAP opposed the inclusion of  
21 an FOCRA in ML&P's tariff. Staff gave the following reasons  
22 for its opposition:

- 23       1. There is no indication that ML&P's source of gas  
24 supply is not as adequate as it has been in prior  
25 years;
- 26       2. ML&P and AGAS have signed a new contract which  
27 provides that the military customers will be curtailed  
28 before ML&P;
- 29       3. In the event of curtailment of significant duration  
30 to effect the utility's revenues, ML&P could request  
31 that it be allowed to amortize the extraordinary diesel  
32 fuel expense; and

1 4. Staff did not believe the diesel expense during the  
2 test year was significant because it was .00098 percent  
3 of the revenue requirement.

4 In its closing statement, ML&P argued that the use  
5 of an FOCRA should be allowed by the Commission. However, in  
6 the event the Commission denied this request, the utility  
7 proposed that, in conjunction with Staff, an acceptable  
8 FOCRA clause be developed with a provision that in the event  
9 of curtailment, the clause would go into effect within  
10 twenty-four hours after the Commission was apprised that the  
11 utility had been forced to burn diesel fuel.

12 The Commission acknowledges that the price of  
13 diesel fuel has increased substantially since 1976. However,  
14 the evidence in this proceeding does not indicate that the  
15 use of diesel fuel is a substantial expense to the utility  
16 or that the probability of curtailment is any greater today  
17 than five years ago. Therefore, the Commission will deny  
18 without prejudice the utility's request to institute an  
19 FOCRA.

#### 20 INTERCONNECTION

21 The issue of reserve capacity was discussed by the  
22 utility's manager. In response to concerns expressed by  
23 public witness Carmen Smith, Stahr indicated that at this  
24 time ML&P has more reserve margin than would be absolutely  
25 required and originally planned for because of the price of  
26 generating units. In response to questions from the hearing  
27 panel, Stahr testified that, in his opinion, if Chugach  
28 Electric Association, Inc. (CEA), and ML&P were "fully  
29 interconnected" and all the appropriate agreements existed,  
30 there would be 70 megawatts of additional capacity available  
31 to the consumers of these utilities. Stahr testified that  
32 "...by interconnecting the utilities, having...proper operating

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1 agreements for the buying and selling...[of] power, for  
2 sharing of reserves, [it] will free up or make available, a  
3 lot of additional generating capacity so you could postpone  
4 investments--these major investments in large units" (Tr.,  
5 p. 26). An integrated system, according to Stahr, could  
6 get by with 20 to 30 percent reserve margin. At the present  
7 time, each utility operating independently must provide  
8 enough reserve capacity to maintain service in the event its  
9 largest unit is down. In response to the question regarding  
10 estimated savings to both CEA and ML&P, Stahr responded that  
11 he believed savings could be at least \$1,000,000 annually to  
12 each utility and could approach \$2,000,000 a year depending  
13 on the price paid for natural gas. When asked if he believed  
14 the interconnection of CEA and ML&P was in the public interest  
15 and should be ordered by the Commission Stahr responded  
16 that if "it is not now, we are rapidly approaching the time  
17 that it will be in the public interest." (Tr., p. 46)

18 Stahr also noted that a study currently underway  
19 by the Alaska Power Authority (APA) indicated that a Fairbanks/  
20 Anchorage transmission tie, in addition to the interconnection  
21 of both Anchorage based electric utilities, would provide  
22 enough reserve capacity in the railbelt area that no additional  
23 generation units would be required until 1990. Although  
24 Stahr did not endorse the APA study, he testified that it  
25 supported the principle that interconnection would defer  
26 major investments by CEA and ML&P.

27 In responding to questions by the hearing panel  
28 regarding interconnection, Staff witness Barber indicated  
29 that Staff believed interconnection would be in the public  
30 interest and that the work being done by the Commission's  
31 consultants in U-71-16 did form the basis for Commission  
32 investigation and subsequent action in this matter.

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1           Based on the evidence in this proceeding the  
2 Commission believes there is prima facia evidence that the  
3 full interconnection of CEA and ML&P would be in the public  
4 interest. Therefore, it will open a docket of investigation  
5 in a subsequent order to examine what procedures should be  
6 established by both utilities and the Commission in order to  
7 effect full interconnection as soon as possible.

8                           CONTINUING PROPERTY RECORDS

9           In his pre-filed testimony, Staff witness Barber  
10 discussed the progress of ML&P in maintaining continuing  
11 property records (CPR's) in compliance with AS 42.05.461.  
12 While acknowledging that a computerized property records  
13 system for ML&P's transmission and distribution line equip-  
14 ment is close to being operational, Barber noted that the  
15 utility is obligated to have CPR's for its generation and  
16 general plant. Staff recommended that the Commission require  
17 ML&P to develop complete property records, permitting the  
18 utility to determine its own schedule with the provision  
19 that complete property records be placed in effect prior to  
20 the utility's request for another general rate increase.

21           General Manager Stahr testified "it was antici-  
22 pated that the computerize, CPR system will be operational  
23 by July 1, 1981, and that the other records will probably  
24 take a month or two to complete after the distribution and  
25 transmission CPR system is operational. Stahr testified  
26 that the utility was concerned about the type of system to  
27 be used for its generation records indicating that the  
28 various parts of gas turbines have different lives. These  
29 components are not a minor part of the generation plant,  
30 according to Stahr, who indicated that a set of blades for  
31 one of the turbines may be \$200,000-\$300,000.

32



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1 rates for all ML&P customers. ACAP testified that it would  
2 support the utility's request for a longer time frame in  
3 order to comply with the PURPA ratemaking requirements and  
4 to have the Commission consider marginal cost pricing.

5 The Commission agrees that the issue of whether or  
6 not the residential consumer of ML&P is bearing more than  
7 the costs to provide its service should be thoroughly examined  
8 in the forthcoming cost-of-service study. An additional  
9 concern is what effect construction underway in ML&P's  
10 service area and that contemplated in 1982 to provide service  
11 to large commercial power customers will have on a cost-of-  
12 service study based on a 1980 test year. The dilemma is  
13 that the approved revenue requirement in this proceeding  
14 includes debt service coverage for 1981 and 1982 plant  
15 construction. Yet, there is no actual consumption or demand  
16 data for those customers. Therefore, how accurately will  
17 the traditional cost-of-service allocation methodologies  
18 reflect ML&P's current customer composition.

19 In addition, the Commission is required to consider  
20 the appropriateness of six ratemaking standards and lifeline  
21 rates under Title 1 of PURPA, more fully described in U-80-20(1).

22 The Commission agrees that the public interest  
23 would best be served by the timely filing of one cost-of-  
24 service study which addresses the concerns articulated above  
25 and the considerations mandated by PURPA. To that end, the  
26 Commission believes that in order to evaluate the options  
27 available to it, ML&P should be required to file within  
28 45 days from the date of this Order response to the following:

29 1. Would proforma adjustments to ML&P's rate  
30 base, which reflects the use of the \$14 million revenue  
31 bonds for plant under construction, provide a method to  
32 reflect the change in composition of customer consumption  
and demand in the imminent cost-of-service study.

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1           2. The methodology that ML&P would propose to be  
2 the most appropriate for the resulting cost-of-service study  
3 in light of:

4           a. The assumption that there may be significant  
5 change in customer distribution as a result of the  
6 substantial commercial construction in 1981 and  
7 1982; and

8           b. the Title 1 requirements of PURPA as they  
9 relate to cost of service.

10           3. The costs associated with and the earliest  
11 dates of completion for (2) above; and the costs associated  
12 with full compliance or consideration of Title 1 rate-making  
13 standards and lifeline, including both a marginal cost and  
14 embedded cost approach to rate design.

15           4. The lead information readily available or  
16 retrievable (within 30 days) which could assist the Commis-  
17 sion in its assessment of the data base available for cost-  
18 of-service studies.

19           5. The availability and validity of the historical  
20 data gathered from customers of Schedule 14, Experimental  
21 Time-of-Day; and the utility's plan to expand or modify this  
22 service offering.

23           The Commission will require Staff to file comments  
24 and recommendations on the above information within 30 days  
25 after its receipt by the Commission.

26  
27 THE COMMISSION FURTHER FINDS AND CONCLUDES:

28           1. The Bench Order granted on May 18, 1981,  
29 establishing an across-the-board 28.06 percent increase to  
30 the utility's existing recurring permanent rates should be  
31 affirmed. See Attachment 2.  
32

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1                   2. The operating expenses, including depreci-  
2                   ation, and specifically those questioned in the comments of  
3                   ACAP are found to be reasonable.

4                   3. The base price of gas should be 88.31¢/MCF for  
5                   the test year 1980.

6                   4. The Commission will allow a uniform life for  
7                   both the steam plant and the gas turbine, reserving the  
8                   right to adjust the lives of those plants at the time a  
9                   depreciation study is filed and approved by the Commission.

10                  5. The Commission will accept the debt service  
11                  coverage approach recommended by Staff to establish the  
12                  revenue requirement in this proceeding and will approve a  
13                  1.18 DSC on the anticipated \$14 million bond sale of the  
14                  utility.

15                  6. ML&P should provide to the Commission no later  
16                  than two weeks from the date of this Order, documentation  
17                  indicating whether or not the prospective bond sale has  
18                  taken place; the amount of interest being paid and the  
19                  effective date of the sale. In the event the sale has not  
20                  taken place, the utility should provide documentation  
21                  indicating what interest rate is being paid on what amount  
22                  of funds being used to finance the construction projects  
23                  that were to be financed from the prospective bond sale. An  
24                  explanation of the CEIP loan application, as articulated in  
25                  the body of this Order, should also be provided.

26                  7. At the time the utility files its next permanent  
27                  rate request, the utility and the Staff should address what  
28                  mechanism, if any, should be established to ensure that  
29                  rates based on a prospective bond sale are not prematurely  
30                  put into effect.

31                  8. The dividend obligation of ML&P to the former  
32                  City service area has been satisfied. No further obligation

1 of ML&P to the former City service area is required under  
2 Section 19.14(a) of the Charter of the Municipality of  
3 Anchorage.

4 9. ML&P should report its actual capital struc-  
5 ture and the percentage of change from the previous year to  
6 the Commission at the time it files its annual report.

7 10. ML&P should be allowed to delete Rule 7.4  
8 Primary Metering Discount.

9 11. ML&P should revise its Rule 7.13 in accord-  
10 ance with the pre-filed testimony of Staff witness Barber,  
11 pages 5 and 6.

12 12. The Commission will deny ML&P's request to  
13 institute an FOCRA without prejudice to the refiling of an  
14 adjustment clause similar to the one proposed by its counsel  
15 during the utility's closing argument.

16 13. There is evidence in this proceeding that the  
17 full interconnection of ML&P and CEA would be in the public  
18 interest. Therefore, the Commission, in a subsequent order,  
19 will open a docket of investigation to examine what procedure  
20 should be established by both utilities and the Commission  
21 in order to accomplish this desirable goal.

22 14. ML&P should be required to develop complete  
23 continuing property records prior to its request for another  
24 general rate increase. Staff should be available in order  
25 to assist the utility to fully comply with AS 42.05.461.

26 15. ML&P should be required to file one cost-of-  
27 service study to comply with the mandate of Title 1 of PURPA  
28 and the possible significant change in customer composition  
29 in ML&P's service area.

30 16. In order for the Commission to determine the  
31 optimum approach to the forthcoming cost-of-service study,  
32

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1 ML&P should provide the information delineated in the body  
2 of this Order within 45 days of the date of this Order.

3 17. The Staff should provide comments and recom-  
4 mendations on the information required in Finding 17 within  
5 30 days after receipt by the Commission.

6  
7 ORDER

8 THE COMMISSION FURTHER ORDERS:

9 1. The Bench Order issued on May 18, 1981, is  
10 affirmed.

11 2. The tariff revision, designated as TA26-121,  
12 filed by the Municipality of Anchorage d/b/a Municipal Light  
13 and Power Department, as supplemented on February 17, 1981,  
14 is approved subject to the modifications and ratemaking  
15 methodology set forth in this Order.

16 3. The Municipality of Anchorage d/b/a Municipal  
17 Light and Power Department shall file with the Commission on  
18 or before October 1, 1981, amended tariff sheets which  
19 reflect a 35.06 percent across-the-board increase to its  
20 recurring rates which includes a roll-in of the utility's  
21 purchased gas flow through of 11.27¢/MCF which was in effect  
22 at the time of the utility's filing.

23 4. The base price of gas for the test year 1980  
24 shall be 68.31¢/MCF.

25 5. A revenue requirement of \$24,294,089 as more  
26 fully articulated in the body of this Order is approved.

27 6. A uniform life for the steam plant and the  
28 gas turbine shall be approved subject to possible change  
29 when a depreciation study is filed and approved by the  
30 Commission.

31 7. The Municipality of Anchorage d/b/a Municipal  
32 Light and Power Department shall provide to the Commission

1 within two weeks from the date of this Order documentation  
2 regarding its proposed bond sale which had been scheduled  
3 for June 1, 1981, and its Coastal Energy Impact Program loan  
4 application as more fully discussed in the body of this  
5 Order.

6 8. The dividend pay out by the Municipality of  
7 Anchorage d/b/a Municipal Light and Power Department is  
8 satisfied.

9 9. At the time it files its annual report with  
10 the Commission, Municipality of Anchorage d/b/a Municipal  
11 Light and Power Department shall report its actual capital  
12 structure and the percent of change from the previous year.

13 10. The Municipality of Anchorage d/b/a Municipal  
14 Light and Power Department shall delete Rule 7.4 Primary  
15 Metering Discount.

16 11. The Municipality of Anchorage d/b/a Municipal  
17 Light and Power Department is granted a revision to its Rule  
18 7.13 as articulated in the body of this Order.

19 12. The request of the Municipality of Anchorage  
20 d/b/a Municipal Light and Power Department to institute a  
21 fuel oil cost rate adjustment is denied without prejudice.

22 13. The Municipality of Anchorage d/b/a Municipal  
23 Light and Power Department shall develop complete continuing  
24 property records prior to its request for another general  
25 rate increase.

26 14. The Municipality of Anchorage d/b/a Municipal  
27 Light and Power Department shall provide within 45 days of  
28 the date of this Order the required cost-of-service study  
29 information detailed in the body of this Order.  
30  
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1 15. Within 30 days after receipt by the Commission,  
2 the Commission Staff shall provide comments and recommendations  
3 on the information provided under Ordering Paragraph 14.

4 DATED AND EFFECTIVE at Anchorage, Alaska this 1st day of  
5 September, 1981.

6 BY DIRECTION OF THE COMMISSION  
7 (Commissioner Stuart C. Hall, concurring in part and dissenting  
8 in part; Commissioner Susan M. Krowles, not participating)

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10 (S E A L)

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Exh. # 3 5/1/81 J. H. ...  
MLP 5/1/81 P. M. ...  
U-80-100

MUNICIPAL LIGHT & POWER

|           | <u>Net Profits</u> | <u>Cash Dividend Payouts</u> |
|-----------|--------------------|------------------------------|
| 1976      | \$1,271,458        | \$ 600,000                   |
| 1977      | 1,330,888          | 506,006                      |
| 1978      | 1,005,697          | 548,456                      |
| 1979      | <u>947,875</u>     | <u>528,755</u>               |
| Sub Total | <u>\$4,555,918</u> | <u>\$2,043,217</u>           |
| 1980      | <u>(2,311,034)</u> | <u>330,982</u>               |
| Total     | <u>\$2,244,884</u> | <u>\$2,374,199</u>           |

ATTACHMENT 1  
Order No. 6, U-80-100

1

MUNICIPALITY OF ANCHORAGE  
MUNICIPAL LIGHT AND POWER  
SCHEDULE OF REVENUE DEFICIENCY  
FOR THE TEST YEAR ENDED DECEMBER 31, 1980

SCHEDULE 1

|                                       |                     |
|---------------------------------------|---------------------|
| Revenue Requirement (Schedule 2) (2)  | <u>\$24,294,089</u> |
| Actual Operating Revenues             | 18,045,678          |
| Add:                                  |                     |
| Fuel Surcharge Revenue Adjustment (1) | 596,632             |
| Pro Forma Connection Charge Revenue   | <u>108,795</u>      |
| Adjusted Operating Revenues           | <u>18,751,105</u>   |
| Revenue Deficiency                    | <u>\$ 5,542,984</u> |
| <br>Required Percent Revenue Increase | <br><u>29.56%</u>   |

(1) Adjustment to Annualize Fuel Surcharge Revenue

Base fuel cost increased from 77.04¢ to 88.31¢ during the year. The normalizing adjustment (Schedule 3) to cost of gas reflects these increases. This filing anticipates the roll in of the new base gas cost rate, therefore, a revenue annualizing adjustment is required to reflect it.

|   |                   |
|---|-------------------|
| 11.27¢ Increase x 7,849,600 mcf   | \$ 984,650        |
| Less the calculated recovery of base cost increases collected through GCRA and included in operating revenues | <u>388,018</u>    |
| Fuel Surcharge Revenue Adjustment   | <u>\$ 596,632</u> |

Subsequent Change for 1981 State Legislation Affecting MUSA

|                                       |                     |
|---------------------------------------|---------------------|
| (2) Revenue Requirement               | \$24,294,089        |
| Decrease Operating Expense            | 277,238             |
| Decrease Return on Rate Base          | <u>3,404</u>        |
| Revised Revenue Requirement           | 24,013,357          |
| Adjusted Operating Revenues           | <u>18,751,105</u>   |
| Revenue Deficiency                    | <u>\$ 5,262,252</u> |
| <br>Required Percent Revenue Increase | <br><u>28.06%</u>   |

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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Carolyn S. Gunn, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall

In the Matter of the Filing of  
a Tariff Revision, Designated as  
TA26-121, by the MUNICIPALITY OF  
ANCHORAGE d/b/a MUNICIPAL LIGHT &  
POWER DEPARTMENT for an Interim  
and Permanent Rate Increase

U-80-100  
BENCH ORDER

The Commission, having considered the need for immediate response in the above referenced docket issues this Bench Order to document the Commission's action prior to issuance of a formal order setting forth the Commission's findings of fact and conclusions of law.

THE COMMISSION ORDERS THAT:

The MUNICIPALITY of ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER DEPARTMENT is granted an across-the-board increase of 20.66% to its existing recurring permanent rates for billings on or after June 1, 1981.

DATED at Anchorage, Alaska, this 18th day of May, 1981.

*Carolyn S. Gunn*  
Commissioner  
*Marvin R. Weatherly*  
Commissioner  
*Stuart C. Hall*  
Commissioner

ALASKA PUBLIC UTILITIES COMMISSION  
1100 Mackay Building - 338 Denali Street  
Anchorage, Alaska 99501  
Phone 274-6222

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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Carolyn S. Guess, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall  
Diana E. Snowden

In the Matter of the Filing of a )  
Tariff Revision, Designated as ) U-81-19  
TA129-120, by the MUNICIPALITY )  
OF ANCHORAGE d/b/a ANCHORAGE ) ORDER NO. 2  
TELEPHONE UTILITY To Revise Line )  
Extension and Unusual Construction )  
Policies )

ORDER EXTENDING SUSPENSION PERIOD

Order No. 1 in this proceeding dated April 13, 1981, suspended the operation of a tariff revision, designated as TA129-120, filed by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY (ATU) for an initial six-month period not to extend beyond October 6, 1981, and instituted an investigation into the reasonableness and propriety of the revision.

On October 5, 1981, the Commission received a letter from ATU stating that "Pursuant to discussions between utility and Commission Staff, it is agreed to extend the time period for this particular filing by sixty (60) days."

Because it appears that the Commission Staff and ATU are engaged in meaningful discussion which may lead to a satisfactory resolution of the issues in this proceeding, the Commission believes that the public interest would best be served by extending the suspension of TA129-120 for an additional 60 days.

ORDER

THE COMMISSION FURTHER ORDERS, That, the operation of the tariff revision, designated as TA129-120, filed by the

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Phone 216-4222

Item 18

1 Municipality of Anchorage d/b/a Anchorage Telephone Utility  
2 is suspended for an additional 60-day period not to extend  
3 beyond December 7, 1981.

4 DATED AND EFFECTIVE at Anchorage, Alaska this 6th day of  
5 October, 1981.

6 BY DIRECTION OF THE COMMISSION

7  
8 (S E A L)  
9



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Phone 276-6222

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Carolyn S. Guess, Chairman  
Marvin R. Weatherly  
Susan M. Knowles  
Stuart C. Hall  
Diana E. Snowden

In the Matter of the Filing of a )  
Tariff Revision, Designated as ) U-76-66  
TAB-12', by the MUNICIPALITY OF )  
ANCHORAGE d/b/a ANCHORAGE WATER ) ORDER NC. 9  
UTILITY for a General Rate Increase )

In the Matter of the Filing of a )  
Tariff Revision, Designated as ) U-81-78  
TA22-122, by the MUNICIPALITY OF )  
ANCHORAGE d/b/a ANCHORAGE WATER ) ORDER NO. 1  
UTILITY for an Interim and Per- )  
manent Rate Increase )

ORDER SUSPENDING OPERATION OF TARIFF REVISION;  
GRANTING I. INTERIM RATE INCREASE; CLOSING DOCKET  
U-76-66 AND ALLOCATING COSTS

On September 2, 1981, the MUNICIPALITY OF ANCHORAGE  
d/b/a ANCHORAGE WATER UTILITY (AWU) filed a tariff revision,  
designated as TA22-122, requesting interim and permanent  
rate increases of 15 percent and 22.95 percent, respectively.  
The utility proposed that the rate increases be applied  
across-the-board to all recurring monthly charges for water  
sales. In addition, the rate increases would be applied to  
all non-recurring charges except deposits and initial fees for  
connection, permits and inspection. AWU has also requested  
that the private fire hydrant maintenance fee be deleted, its  
elimination having been overlooked in TA21-122.

The Commission Staff (Staff) has reviewed the  
filing and has determined that it meets the requirements of  
3 AAC 48.270 and 3 AAC 48.275(a). AWU has requested a  
waiver of 3 AAC 48.275(a)(8) since information relating to  
income taxes is inapplicable to a municipally owned utility.

2/26/81 37

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1 The filing was noticed on September 9, 1981, with  
2 a closing date of October 7, 1981, for the submission of  
3 statements in support of, or in opposition to, the proposed  
4 tariff revision. No responses have been received by the  
5 commission.

6 Interim Rate Increase

7 The Commission notes that different standards  
8 apply to assessing requests for interim as distinguished  
9 from requests for permanent rate relief. Under AS 42.05.421(d),  
10 "One who initiates a change in existing tariffs shall bear  
11 the burden to prove the reasonableness of the change." Where  
12 an interim rate increase is requested, the Alaska Supreme  
13 Court has ordered this Commission to grant relief provided  
14 the utility demonstrates:

- 15 1. That existing rates are confiscatorily  
16 low;
- 17 2. That those low rates will remain in effect  
18 for an unreasonably long period of time;
- 19 3. That without an interim rate increase, it  
20 will suffer irreparable harm;
- 21 4. That the public can be adequately protected  
22 in the event the interim increase is ultimately  
23 determined to be excessive in amount;  
24 and
- 25 5. That the magnitude of the utility's request  
26 is not "frivolous or obviously without merit."

27 Alaska Public Utilities Commission v. Greater Anchorage Area  
28  Borough, 534 P 2d 549, 554, 557-559 (Alaska 1975); quoted  
29 with approval in United States v. RCA Alaska Communications,  
30 Inc., 597 P.2d 489 (Alaska 1978).

31 Under the GAA decision, a utility does not have  
32 to advance the same detailed proof which is required for a  
permanent rate increase or tariff change in order to secure  
interim relief. The utility does not even have to demonstrate  
that it will probably succeed in all aspects of its proof a: