1597 HJ CONFIRMATION HEARING - SUSAN KNOWLES (A.P.U.C.)

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[10] 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[11] 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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[10] WATS (Wide Area Telephone Service) - A special direct distance dialing service which allows a subscriber to make interstate calls at fixed volume rates.

[11] 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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it is also clear that such interconnection deprives the connecting exchange company of toll revenues and allows the use of the exchange facilities without proper compensation.

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

With the advent of competition and the mandate of Execunet, telephone exchange companies became more acutely aware of toll revenue diversion and quickly identified FX and CCSA[12] as suspect. FX and CCSA are private line services that have been treated differently from other service offerings. The costs associated with these private line services are assigned wholly to the interstate revenue requirement. The

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[12] FX service provides a subscriber with a private line connecting his phone with a telephone exchange not located in his area. Example: A FX subscriber in Anchorage is connected by private line to the Juneau exchange. The subscriber would receive two bills, one for his private line and the other for the charge assessed for local exchange service in Juneau. CCSA (Common Control Switching Arrangement) is a private line system that links the various offices 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.

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

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

The FCC has ventured forth with a tentative plan[14] but no firm time frame for implementation has been proposed. The plan was summarized as follows:

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

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

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[13] MCI Telecommunications v. FCC, supra, as cited on p. 6 of Brief for Respondents New York Tel. Co. v. F.C.C., 631 F.2d 1059 (1980).

[14] MTS and WATS Market Structure, Second Supplemental Notice of Inquiry and Proposed Rulemaking, FCC 80-198 (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

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

The utility costing approach is to apply the methodology accepted by this Commission and the FCC as set forth in the Separations Manual of 1971, making certain assumptions in the application of that methodology. The utility used its last Alascom accepted separations study of 1977 and its private line inventory of 1978 in developing the basis of its study (T-2, p. 3). The original ESIS tariff filing provided a single monthly rate of $160 for all access arrangements. Upon further consideration by the utility, it became apparent that such services should be costed on a usage basis; i.e., those who use the local exchange facility more should pay a higher rate. Due to an inability to obtain ESIS usage data, the utility had to make certain assumptions. In the case of the OCC's, the utility used the figure of 3,000 minutes of use supplied by the OCC's and accepted during ENFIA negotiations by ATT, the OCC's and the FCC. For the other ESIS offerings, ATU used the figure of 1.096 minutes of use. This is the average usage per main station in the Anchorage area, the utility believes this is a valid and representative usage amount. Using these assumptions the utility applied the data to the number of channels gathered from its inventory and established an assumed usage for the ESIS service (T-2, p. 3).

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The utility developed two revenue requirements in the rate development process for ESIS. The first revenue requirement is for all ESIS services and the second is a revenue for all MTS/WATS equivalent services (OCC). The OCC revenue requirement was then subtracted from the total ESIS revenue requirement, resulting in a residual revenue requirement that is spread to the other ESIS offerings; i.e., FX, OPX and TL (Exhibits NH-2, 3, 4).

Further, in developing the ESIS rates the utility treated ESIS, because of comparability, in a manner similar to the costing methodology used for interexchange services (T-3, p. 4). The primary factors used in the allocation process are: Subscriber line usage (SLU); weighted dial equipment minutes (weighted DEM); subscriber plant factor (SPF); and traffic unit apportionment (TUA). (Exhibit MC-3) Certain modifications were made to the factors after discussion with the Staff consultants.

In developing the ESIS rates, the utility used the ATU cost study for 1977. Witness Campbell stated that the ESIS rates should not be adjusted as more current cost studies become available but should be treated the same as other tariff offerings and reviewed at the time ATU files a general rate increase request or when other conditions relative to these services change (T-3, p. 6).

STAFF

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

William J. Warinner (T-5)-Troupe, Kehoe, Whiteaker & Kent

Clint Frederick (T-6)-Troupe, Kehoe, Whiteaker & Kent

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135

Witness Warriner reviewed the cost development methodology provided by the utility in support of the ESIS filing. Witness Frederick presented rates which he believed the Commission should use in granting approval of the ESIS filing. He also presented certain policy questions which he believed the Commission should address. He further recommended that the ESIS rates be on an inception basis and suggested that they also be interim.

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

Due to uncertainty regarding usage factors and the aged costing information provided by ATU, Staff advocated 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 CPX 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.

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137

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

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

Discussion

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

In the instance of the OCC systems of interconnection with local exchanges, there is no question that toll diversion exist. There is nationwide recognition of this fact as evidenced by the FCC action in the ENFIA proceedings. There is no evidence in this proceeding that would lead this Commission to the conclusion that an interconnection with an OCC in Anchorage would deviate from the experience and history of such interconnections in other jurisdictions in

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our nation. To the contrary, the record before the Commission clearly demonstrates that the utility can expect a revenue impact from OCC interconnection and that it is prudent for ATU to anticipate this occurrence by filing a tariff that will cover the revenue requirement associated with the birth of OCC interconnection in Anchorage, Alaska.

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

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

The record in this proceeding clearly supports the conclusion that toll diversion exists for FX, OPX, and TL. There is also support for an additional revenue requirement for these services and that the utility is not being compensated

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for costs incurred in providing services outside and beyond the normal trunking tariffed rate. The Intervenors have provided no evidence that the assumptions or costing methodology of utility or Staff are erroneously based. In fact, Intervenor witness Benton in Exhibit WJB-2 indicates a measured 1,188 off-net calls which results (using a holding time of 4.3 minutes per call) of an average of 1,009 minutes of use per channel. This compares favorably with the 1,096 minutes of use assumed by ATU in its ESIS rate development for FX, OPX, and TL. The fact that a service does not schematically directly interface with an ATU exchange does not eliminate the indirect use of such services to by-pass MTS circuits. The Commission must conclude that the ESIS tariff properly identifies and establishes costs associated with the use of FX, OPX, and TL services. The Intervenors have failed to discredit or raise substantial questions as to the validity of the ESIS tariff. The fact that the Intervenors make use of substantial private line telecommunications does not abrogate their responsibility to assume their fair share of costs associated with their access to the ATU exchange facility. As evidenced by the record in this proceeding, this utility and all local exchange utilities within the State of Alaska must be mindful of the changing times of the telephone industry and the pressures that are coming to bear on their local exchange rates. The Commission is very much aware of the national scenario which is causing enormous economic pressures on local exchange utilities. These pressures may be vented through tariffs, such as ESIS, that gives identity to latent areas of cost.

The question of jurisdiction of this Commission to deal with the ESIS tariff has been raised by GSA and the

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140

Intervenors. New York Telephone v. FCC[15] has been cited as the leading case on the issue of the jurisdiction of this Commission to grant approval of the ESIS tariff.

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

> In the final analysis, as at first blush, this case is really an administrative jurisdictional dispute, with NYT and interstate FX and CCSA users to some extent caught in the middle. Upholding the FCC order, we force NYT to go back to the state for a new tariff that is consistent with the FCC's March 12 order, as the telephone companies have done in California and Missouri cases. Of course, NYT may instead file a new tariff with the FCC, but the future Joint Board proceedings on all separations procedures may delay approval for at least a year. To hold otherwise in this case would permit the PSC to export intrastate telephone costs to interstate users until separations procedures have been revised and all interests accommodated. In the words of a dissenting PSC member, "[u]niformity in procedures used to allocate costs among the many jurisdictions involved is vital," in fairness to telephone company and ratepayer alike. NYPSC 27460, 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 considerable litigation expense. The PSC order abrogated by the FCC order which we affirm would do just about the opposite.

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

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- 1211

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 Intervenors 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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142

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

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

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

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

As previously stated, the main difference in the rate development approach advocated by the Staff and the Utility is the CSR. The utility used a composite CSR for FX, OPX, and TL and the interstate CSR for OCC. The Staff uses the same CSR for all ESIS services in developing its modified composite rate. The Staff maintains that the ATU method gives a preferential rate to the non-ESIS customers. The Commission agrees with the Staff position at this stage of developing the ESIS rates. Until such time as the utility has developed an operating history under the ESIS tariff and a national regulatory master scheme is established, it would be in the public interest to establish rates that carry no stigma of rate preference. The Commission will accept the Staff-modified composite rate as noted in schedule WJW A-1. The Commission believes the Staff rate development accurately represents the ESIS revenue requirement. The Staff total ESIS revenue requirement of $372,854 results in the following rates:

Foreign Exchange	$ 99
Off Premise Extension	$ 99
Tie Lines	$ 99
Other Common Carrier	$265

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

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

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145

overcharge. There is no evidence to imply that this possibility exists in the instant proceeding. The Commission mandate that the rates are inception rates will adequately protect the utility and the consumer by forcing an annual review of them.

THE COMMISSION FURTHER FINDS AND CONCLUDES:

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

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

3. The Commission has authority to grant approval of exchange access rates proposed in tariff revision designated TA110-120.

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

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

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

7. The rate development methodology, with the exception of the CSR ratio used, is reasonable and results in rates that are nondiscriminatory.

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

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

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10. The ESIS tariff rates should be nonrefundable.

ORDER

THE COMMISSION FURTHER ORDERS:

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

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

Foreign Exchange	$ 99
Off Premise Extension	$ 99
Tie Line	$ 99
Other Common Carrier	$265

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

4. The Municipality of Anchorage d/b/a Anchorage Telephone Utility shall file annually cost information in support of the rates approved under TA110-120. No tariff revision will be required if as a result of the cost information the rate variation is less than ±5 percent.

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

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

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

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147

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 TA110-120, by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY for Rates and Conditions for Exchange System Used by Interexchange Services	U-80-42

ERRATA NOTICE

ORDER NO. 3

ORDER GRANTING TARIFF REVISION
(Issued June 26, 1981)

Page 10, line 10-1/2: Delete "Agreement" and Insert "for Interstate Access".

Page 23, line 30: Add "CCSA $ 99".

Page 26, line 13: Add "Common Control Switching Arrangements $ 99".

DATED AND EFFECTIVE at Anchorage, Alaska this 8th day of July, 1981.

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

(S E A L)

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197

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 TA26-121, by the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT for an Interim and Permanent Rate Increase	U-80-100 ORDER NO. 5

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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Item 11

ORDER

THE COMMISSION FURTHER ORDERS, That, the operation of the tariff revision, designated as TA26-121, filed by the Municipality of Anchorage d/b/a Municipal Light & Power Department is further suspended until September 1, 1981, with the exception of that portion of the tariff addressing permanent rates for recurring charges which were increased by 28.06 percent effective June 1, 1981.

DATED AND EFFECTIVE at Anchorage, Alaska, this 30th day of June, 1981.

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

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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 Special Contract Between the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT and the UNITED STATES OF AMERICA d/b/a FEDERAL AVIATION ADMINISTRATION	U-78-85 ORDER NO. 6

ORDER CLOSING DOCKET

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

ORDER

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

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

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

(S E A L)

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Item 13 275

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 TA26-121, by the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER DEPARTMENT for an Interim and Permanent Rate Increase	U-80-100
	ORDER NO. 6

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 percent ($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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Item 14 LXIV 176

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

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

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

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

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

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

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

> The ACAP Petition To Intervene lacks the specificity that is demanded by 3 AAC 48.110(c) and fails to meet the standard set out in U-77-16(2). Order No. 3, p. 4.

Therefore, the Commission rejected the petition without prejudice.

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

1. Residential consumers pay a disproportionately higher share of increased consumption costs than do industrial and commercial users, and this would be exacerbated by the proposed rate increase. Therefore, the Commission should institute a rate redesign proceeding addressing ML&P's electric rates;

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

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

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

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

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

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7. ML&P's "Other Interest Expense" has increased substantially and should be carefully examined; and

8. The amount of ML&P's uncollectible accounts has also increased, and the reasons therefor should be examined.

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

ML&P was represented by its attorney Roger M. Kemppel and presented the following company witnesses: Richard O. Fry, Financial Services Manager, ML&P; Thomas R. Stahr, General Manager, ML&P; Max Foster, Revenue Requirements Supervisor, ML&P; John Parisena, Audit Manager, Arthur Young & Company; and Walter W. Filkin of Van Kampen, Filkin & Merrit, Inc., investment bankers.

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

Also attending the hearing were several of the utility's consumers, members of the media, and ACAP, represented by its attorney and director, Deborah Lee Williams.

On May 6, 1981, ACAP filed Post-Hearing Written Comments which requested, among other things, that the Commission grant ML&P an increase of not more than 24.24 percent.

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

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

REVENUE REQUIREMENT

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

Operating Expenses

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

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

Depreciation

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

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

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

The effect of Staff's proposal to adjust the depreciation life of the steam plant represents approximately 1 percent of the revenue requirement. The Commission concurs that for the purpose of this proceeding no adjustment to the revenue requirement is warranted. However, the issue of the appropriate life for the steam plant requires resolution. The Commission is persuaded, at this time, that the utility's argument in support of a uniform life for the steam plant and the gas turbine is reasonable. Since the Commission accepted a shorter life for the gas turbines in U-76-11 because they are used as base load rather than for peaking, it follows that the shorter life for the Steam Production Plant Account is consistent. It may be, considering the testimony of Stahr regarding the dilemma facing the utility in maintaining continuing property records of its generation plant, that a depreciation study should be undertaken. The Commission is hesitant to order a study at this time because of the financial position of the utility. It will reserve the right to do so in the future, however, and to adjust the lives of the gas turbines and steam plant accordingly.

Rate of Return

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

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

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

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

ML&P has suffered equity attrition in every year except 1978 for the last five years. According to witness Foster, ML&P's equity capital was 21.1 percent in 1976 and during the test year it was 10.6 percent. Foster recalled that in Docket U-79-13, the last permanent rate request of ML&P, the return requested and granted was derived after determining the debt service coverage required to sell additional revenue bonds and noted the similarity to the instant proceeding. Foster noted that because the rate base is considerably larger than that in 1978, the utility has requested the same return on equity (15 percent) allowed in U-76-11.

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

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

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

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

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

Because Staff believes it is necessary to rebuild ML&P's equity, it recommended a DSC of 1.48 which supports the utility's revenue requirement. In addition, Staff recommended that ML&P be required to capitalize interest on its current and future construction because it would positively affect the equity position of the utility and because it reduces the amount of interest expensed, which in turn reduces the revenue requirement; this practice would benefit current ratepayers without affecting future ratepayers. However, Staff noted this recommendation and its support assumes rates based strictly on DSC. A reversion to traditional ratemaking standards, i.e., return on rate base, would mean that capitalization of interest would seriously affect rates. In addition, Staff testified that in October, 1979, the Financial Accounting Standards Board issued its Statement No. 34 which made capitalization of interest a generally accepted accounting principle.

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

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

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

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Anchorage, Alaska 99501
Phone 276-6222

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

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

By granting the utility's revised revenue requirement, either ratemaking methodology presented in this proceeding would substantiate the results. It can be argued that a hypothetical capital structure of 60/40 with a rate of return on equity at 15 percent will yield the same revenue requirement as a debt service coverage of 1.48 on the anticipated future bond sales of the utility.

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

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

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

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

> Unfortunately right at this time the bond market is so bad (we estimate we would have to pay in excess of 12 percent interest today) that we are proceeding to arrange interim short term financing with the Municipality of Anchorage.
>
> We are preparing for the bond sale and as soon as market conditions improve to a satisfactory interest rate we will be ready to go to sale.
>
> If the Municipal Bond Market should continue to be adverse for several months there are two other alternates which we could look at. One would be to market short term bond anticipation notes and 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.

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

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sale. The Commission must require documentation indicating what interest rate is being paid on what amount of funds from what source in order to determine whether the utility is recovering more through its rates than its expenses. In addition, an explanation of whether the CEIP loan application is in addition to or a replacement for the proposed bond revenues is required. All relevant data including estimated time frame for a de ision on the loan application and anticipated interest rat should be provided. This information should be provided to the Commission as soon as possible and not later than two weeks from the date of this Order.

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

The Commission would observe that ML&P's last two requests for permanent rate relief have not been timely filed in light of the requirement of the utility to have in effect permanent rates before proposed revenue bonds can be sold. In both instances, the Commission received and responded to requests for expedited consideration. The Commission is concerned that this practice not become a habit in light of its continuously pressing workload and its responsibility to give equitable consideration to matters concerning all utilities under its jurisdiction. Therefore, it will expect that any future permanent rate requests required prior to a prospective revenue bond sale will take into account the six-month statutory time frame provided for Staff audit, analysis and Commission decision.

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

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

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

The Commission is persuaded that it is not necessary at this time to require a review of the utility's construction practices and procedures. The Commission acknowledges and understands the rationale of the accounting Staff because of its advocacy of permanent rates which include pre-construction and construction work in progress. The Commission does believe, however, that the Staff and the utility should explore possible alternatives to a formal review of construction practices to provide the checks and balances, from a practical standpoint, that the DSC approach implies is desirable. This could take the form of involving the Staff in the documentation and planning for future bond sales; it could include the certified professional engineer's report in the utility's filings before the Commission; it could provide to the Commission the minutes of the ML&P advisory committee's deliberation on the necessity for future bond sales and it could provide an independent review of the utility's construction practices and procedures, initiated by the utility and submitted to the Commission prior to the next bond sale. Because the Commission does not accept the Staff recommendation in the instant proceeding does not necessarily mean that this same position will prevail in the future. What triggers confidence today in ML&P can be undone tommorrow, and this Commission will continue to react when the occasion demands in order to protect the ratepayers of a utility and the public interest.

DIVIDEND PAY OUT

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

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

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

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

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

OTHER TARIFF CHANGES

The Staff concurred with the utility's request to delete Rule 7.4 Primary Metering Discount. This is a housekeeping item, and the Commission will approve the utility's request.

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

FUEL OIL COST RATE ADJUSTMENT

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

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The utility, in the instant filing, argues that the situation facing ML&P today has changed dramatically since the issuance of Order No. 6 in U-79-21. ML&P alleges that the cost of diesel has substantially increased; that the delivery of natural gas to ML&P was curtailed in December of 1980; that curtailment could happen in the future; and because these conditions have a significant effect on the operating expenses of the utility, the establishment of an FOCRA is warranted. The utility also testified that diesel fuel was used during the year to test its backup generation. However, ML&P could not quantify the expense associated with this procedure or how often its diesel-fired generators were tested. Utility witness Foster in his pre-filed testimony indicated that the methodology proposed by ML&P to establish an FOCRA would have to be modified if the Commission accepted the request of Alaska Gas and Service Company (AGAS) to revise its gas flow through clause. The Commission, subsequent to the hearing in the instant proceeding, has accepted the AGAS request.

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

1. There is no indication that ML&P's source of gas supply is not as adequate as it has been in prior years;

2. ML&P and AGAS have signed a new contract which provides that the military customers will be curtailed before ML&P;

3. In the event of curtailment of significant duration to effect the utility's revenues, ML&P could request that it be allowed to amortize the extraordinary diesel fuel expense; and

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

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

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

INTERCONNECTION

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

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

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

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

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

CONTINUING PROPERTY RECORDS

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

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

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The Commission will continue to articulate its requirement that ML&P develop complete continuing property records. It recognizes the dilemma of the utility regarding the appropriate system to be used for its generating plant. The Commission would recommend that the utility seek assistance and advice from Staff, if necessary, in order to fully comply with AS 42.05.461. The Commission concurs that ML&P's CPR system should be completely operational prior to another request for a general rate increase.

RATE DESIGN

In Staff's pre-filed testimony, Evans recommended that ML&P be required to file by October 31, 1981, a cost-of-service study based on its 1980 test year revenue requirement. Staff also agreed to an extension of that deadline should similar filings be required under the Public Utility Regulatory Policies Act (PURPA).

During cross-examination utility witness Foster indicated that the earliest a cost-of-service study could be completed was three months from the date of this Order. Acknowledging that ML&P was subject to the jurisdictional requirement of PURPA, Foster stated that the utility wished to avoid providing two cost-of-service studies and could comply with the PURPA ratemaking requirements within a six-month time frame.

ACAP, in its written formal comments and during it testimony, expressed concern about ML&P's existing rate design. ACAP provided consumption and revenue documentation for the last five years. This historical information indicated that residential customers have paid proportionately far more for increased consumption than commercial-industrial customers. ACAP, therefore, requested a rate redesign proceeding to assure just, reasonable and non-discriminatory

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

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

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

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

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

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

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

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

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

4. The load information readily available or retrievable (within 30 days) which could assist the Commission in its assessment of the data base available for cost-of-service studies.

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

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

THE COMMISSION FURTHER FINDS AND CONCLUDES:

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

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2. The operating expenses, including depreciation, and specifically those questioned in the comments of ACAF are found to be reasonable.

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

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

5. The Commission will accept the debt service coverage approach recommended by Staff to establish the revenue requirement in this proceeding and will approve a 1.48 DSC on the anticipated $14 million bond sale of the utility.

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

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

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

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

9. ML&P should report its actual capital structure and the percentage of change from the previous year to the Commission at the time it files its annual report.

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

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

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

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

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

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

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

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

17. The Staff should provide comments and recommendations on the information required in Finding 17 within 30 days after receipt by the Commission.

ORDER

THE COMMISSION FURTHER ORDERS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. The Municipality of Anchorage d/b/a Municipal Light and Power Department shall provide within 45 days of the date of this Order the required cost-of-service study information detailed in the body of this Order.

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15. Within 30 days after receipt by the Commission, the Commission Staff shall provide comments and recommendations on the information provided under Ordering Paragraph 14.

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

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

(S E A L)

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Exh. # 3 5/1/81 Tabled ?
MLP 5/4/81 Passed ?
U-80-100

MUNICIPAL LIGHT & POWER

	Net Profits	Cash Dividend Payouts
1976	$1,271,458	$ 600,000
1977	1,330,888	506,006
1978	1,005,697	548,456
1979	947,875	388,755
Sub Total	$4,555,918	$2,043,217
1980	(2,311,034)	330,982
Total	$2,244,884	$2,374,199

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

SCHEDULE 1
Amended

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

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

(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	$ 884,650
Less the calculated recovery of base cost increases collected through GCRA and included in operating revenues	288,018
Fuel Surcharge Revenue Adjustment	$ 596,632

Subsequent Change for 1981 State Legislation Affecting MUSA

(2) Revenue Requirement	$24,294,089
Decrease Operating Expense	277,238
Decrease Return on Rate Base	3,494
Revised Revenue Requirement	24,013,357
Adjusted Operating Revenues	18,751,105
Revenue Deficiency	$ 5,262,252
Required Percent Revenue Increase	28.06%

ATTACHMENT 2

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 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 28.06% to its existing recurring permanent rates for billings on or after June 1, 1981.

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

Commissioner

Commissioner

Commissioner

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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 TA129-120, by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY To Revise Line Extension and Unusual Construction Policies	U-81-19 ORDER NO. 2

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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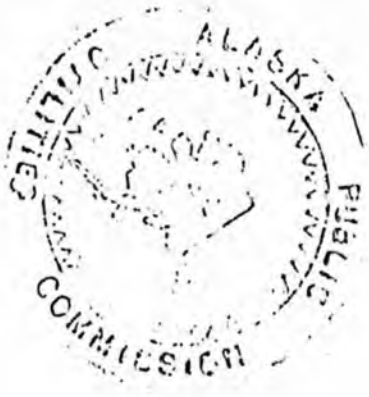
Item 15

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

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

BY DIRECTION OF THE COMMISSION

(S E A L)



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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 TA8-122, by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE WATER UTILITY for a General Rate Increase	U-76-66 ORDER NO. 9
In the Matter of the Filing of a Tariff Revision, Designated as TA22-122, by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE WATER UTILITY for an Interim and Permanent Rate Increase	U-81-78 ORDER NO. 1

ORDER SUSPENDING OPERATION OF TARIFF REVISION; GRANTING 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.

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Item 16 37

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

Interim Rate Increase

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

1. That existing rates are confiscatorily low;

2. That those low rates will remain in effect for an unreasonably long period of time;

3. That without an interim rate increase, it will suffer irreparable harm;

4. That the public can be adequately protected in the event the interim increase is ultimately determined to be excessive in amount; and

5. That the magnitude of the utility's request is not "frivolous or obviously without merit."

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

Under the GAAB decision, a utility does not have 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 at

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the time of the permanent rate increase decision. See, A. J. Industries, Inc. v. Alaska Public Service Commission, 470 P.2d 537, 540 (Alaska 1970). The Supreme Court has merely required the utility to show that its existing rates are inadequate and that the "balance of hardships" tips in its favor. A. J. Industries, supra at 540; GAAB, supra at 557.

The Alaska Supreme Court has never defined the precise point at which a utility's rates fall into the prohibited zone of confiscation. However, where the utility is being operated at a loss, the Court has expressly found those rates to be clearly confiscatory and has ordered this Commission to grant interim rate increases. GAAB, supra n. 26, at 558.

In the instant case, the utility's 1980 audited financial statements, as adjusted for known and measurable changes, show a net loss of $487,586 (Net operating income after pro forma adjustments per filing Schedule 3 of $705,826 long-term debt interest expense of $1,193,412). Therefore, the utility has made a prima facie showing that its existing rates are confiscatorily low. Thus, the first element of the five-part GAAB test has been satisfied.

The Staff has indicated that it requires the opportunity to audit AWU's accounts and records, to investigate the reasonableness and propriety of AWU's proposed overall 22.95 percent rate increase, and to examine a detailed analysis of costs allocated to/from other municipal entities, including the sewer utility, before making a recommendation concerning the utility's request for a permanent rate increase. Therefore, the Staff recommended suspension of the permanent rate increase for an initial period not to exceed six months. The GAAB decision has held that even if confiscatorily low rates are in effect for as short an interval as the statutory suspension period, it constitutes an unreasonable length of time and is

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sufficient to justify interim rate relief. The second element of the GAAB test has thus been established.

In Alaska it has been repeatedly held that a utility may not bill its subscribers retroactively either upon receiving approval to increase its rates or to recoup past losses. A. J. Industries, supra at 541; GAAB, supra at 554. Accordingly, every Alaska Supreme Court decision on point unanimously states that the denial of interim relief will cause the utility to suffer irreparable harm as a matter of law when the other four elements have been shown to exist. Thus, the third element has been met.

The courts in Alaska have recognized the refund condition attached to interim rate increases as the cornerstone to adequately protect the public against payment of excessive rates. The Staff recommends that the utility be required to refund any excess revenues collected under the interim rate increase if, after investigation, it is determined that that amount is greater than the permanent increase ultimately granted in this proceeding. Thus, de facto the fourth element of the GAAB test has been satisfied.

Finally, the utility's request must not be "frivolous or obviously without merit." The Commission believes this requirement is satisfied if the magnitude of the interim increase is reasonable and not excessive in light of all the facts and circumstances prevailing at the time of the request. AWU has requested a 15 percent interim rate increase in the amount of $849,798. The Staff calculated a deficiency of $1,058,591 based on rate of return methodology and of $1,124,974 based on the debt service coverage (DSC) methodology (1.25 DSC required on revenue bonds). The utility's requested increase results in a rate of return of 7.53 percent and DSC of 1.14. No adjustments of operating expenses or rate base were made by Staff for purposes of calculating the interim revenue deficiency.

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40

Staff, after completion of its analysis of TA22-122, recommended that AWU be granted a 15 percent refundable interim rate increase applicable on an across-the-board basis to recurring charges and certain non-recurring charges currently in effect for billings rendered on or after October 16, 1981. Staff concurred with AWU that some nonrecurring service charges are impacted by increased operating expenses, e.g., labor, and, therefore, should be subject to the 15 percent increase.

The Commission agrees with Staff's recommendation and concludes that an interim rate increase of 15 percent is appropriate under the Alaska Supreme Court's decision in GAAB, supra; A. J. Industries, supra; and RCA Alascom, supra. The utility was telephonically notified of the Commission's decision on October 12, 1981.

The Commission may at its discretion require an escrow account or bond to assure the availability of refund monies. AS 42.05.421(c). In exercising its discretionary powers not to require AWU to escrow funds or to post a bond, the Commission, in concurrence with Staff's recommendation, will require the utility to refund any revenue gained from the interim rate increase which exceeds the revenue which would have been derived during the same period at the level of permanent rates ultimately granted in this proceeding.

Closure of Docket U-76-66

In Docket U-76-66, bulk water sale special contracts with Central Alaska Utilities, Inc., and Romig Park Improvement Co., Inc., are outstanding. The bulk water sale contracts will be subsumed under Docket U-81-78. Since there are no further substantive or procedural issues to be resolved in Docket U-76-66 and there are no costs to be allocated, Docket U-76-66 should be closed.

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As a condition of acceptance of TA21-122, a request to eliminate Schedule E - Private Fire Protection, AWU was ordered to file a cost-of-service study by June 1, 1981. In a letter dated May 22, 1981, AWU indicated its intent to file a new revenue requirement study by September 1, 1981. AWU indicated that it would be appropriate for the cost-of-service study to be based on the new revenue requirement study.

The Commission concurs with AWU that the cost-of-service study should be based on the permanent revenue requirement established in this proceeding. Therefore, the cost-of-service study condition attached to approval of TA21-122 will be subsumed under Docket U-81-78.

THE COMMISSION FURTHER FINDS AND CONCLUDES:

1. AWU is a public utility as defined in AS 42.05.701 and is subject to the regulatory jurisdiction of this Commission.

2. AWU's request for permanent rate relief should be suspended for an initial six-month period, not to extend beyond April 16, 1982, pending full investigation of the proposed rate increase.

3. AWU has demonstrated a revenue deficiency of $849,798 and should be granted a refundable interim rate increase of 15 percent to be coterminous with Commission consideration of the permanent rate request. The increase should be applied across-the-board to the currently effective tariffed rates for recurring charges for water sales and for non-recurring charges excluding deposits and initial fees for connection, permits and inspection.

4. AWU should be allowed to drop the private hydrant maintenance fee.

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5. AWU should not be required to establish an escrow account or post a bond. The public will be protected by requiring the utility to refund any excess revenues collected.

6. Inasmuch as special contract issues of Docket U-76-66 are to be transferred to and subsumed in this Docket; no further substantive or procedural issues remain to be considered or resolved in that proceeding; there are no costs to be allocated under AS 42.05.651, and Docket U-76-66 should be closed.

7. The cost-of-service study condition attached to approval of TA21-122 should be transferred to and subsumed under Docket U-81-78.

8. Staff should be made a party to this proceeding.

ORDER

THE COMMISSION FURTHER ORDERS:

1. The operation of the tariff revision, designated as TA22-122, filed by the Municipality of Anchorage d/b/a Anchorage Water Utility, is suspended for an initial six-month period not to extend beyond April 16, 1982.

2. The Municipality of Anchorage d/b/a Anchorage Water Utility is granted an interim rate increase of 15 percent, fully refundable and coterminous with Commission consideration of the permanent rate request. The increase is applicable on an across-the-board basis to currently tariffed rates for recurring charges for water sales and for non-recurring charges excluding deposits and fees for initial connections, permits and inspection, upon bills rendered on or after October 16, 1981.

3. The private hydrant maintenance fee, Rule 10.10 of Tariff Sheet No. 47 shall be deleted.

4. The Municipality of Anchorage d/b/a Anchorage Water Utility shall maintain records of each customer paying the interim rate increase. The utility shall be required to

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refund any revenues collected under the interim rate increase in excess of revenues which would have been derived during the same period if the permanent rate increase ultimately granted in this proceeding had been in effect. If the rates which the Commission subsequently allows on a permanent basis are greater than rates allowed on an interim basis, the resultant revenue deficiency may not be collected by the Municipality of Anchorage d/b/a Anchorage Water Utility.

5. By November 15, 1981, the Municipality of Anchorage d/b/a Anchorage Water Utility shall file amended tariff sheets reflecting the interim rate increase approved by this Order.

6. An investigation is instituted into the reasonableness and propriety of the subject tariff filing.

7. The outstanding issues in Docket U-76-66 and TA21-122 are subsumed in Docket U-81-78.

8. Docket U-76-66 is closed.

9. The Municipality of Anchorage d/b/a Anchorage Water Utility shall file a cost-of-service study, with the deadline for its submission to be established by a subsequent order of the Commission.

10. The Commission Staff is made a party to this proceeding.

DATED AND EFFECTIVE at Anchorage, Alaska this 29th day of October, 1981.

BY DIRECTION OF THE COMMISSION

(S E A L)

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44

Hearing Off 11-81-80

STATE OF ALASKA

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

November 5, 1981

Mr. John W. Coyne
Assistant Municipal Attorney
Municipality of Anchorage
Pouch 6-650
Anchorage, Alaska 99502

Dear Mr. Coyne:

RE: The Application of the Municipality of Anchorage
For a Certificate of Public Convenience and
Necessity to Operate as a Public Utility
Furnishing Garbage, Refuse and Trash
Collection and Disposal Service

With recognition of the fact that Staff agreed that responses to questions 3, 4 and 10 could be omitted and the request for exemption by the Municipality of Anchorage, a review of the above referenced application discloses that the application is deficient or otherwise incomplete in the following respects:

(1) The $50.00 application fee required by AS 42.05.661 and noted in instructional footnote 2 of the application has not been paid.

(2) The service area description, Exhibit E, is not set forth in township, range and section designations as requested in instructional footnote 3 of the application.

(3) The proposed tariff included with the application is not set forth in the format approved by the Commission, as required by 3 AAC 48.200, 3 AAC 48.430 and as noted in instructional footnote 13 of the application.

In order that noticing of the application can be made and to avoid any further unnecessary delay in the processing of the application, you are requested to immediately remit the statutory $50.00 application fee and not later than November 20, 1981, file a service area description set forth in the township, range and section format for the areas in which the utility services are provided.

- Item 17

Pending its initial consideration whether to grant the requested exemption from economic regulation, the Commission will not require that the format of the proposed tariff be corrected or that a response to question 14 of the application be filed. However, the Municipality of Anchorage is placed on notice that correction of the tariff format and the filing of a response to question 14 of the application as well as the filing of other supplemental information may be required prior to any final decision of the Commission regarding the requested exemption or certification application.

BY DIRECTION OF THE COMMISSION

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION

John B. Farleigh

John B. Farleigh
Executive Director

Routed to:	Initials	Date
[illegible]	[illegible]	11/3/81
[illegible]	OK MW	10/30/81
[illegible]	OK SW	10-30-81
Hall 1	OK [illegible]	11-2-81
Snowden	OK DGS	11-3-81

STAFF ACTION

ACTION	DATE	BY
Drafted by		
Typed by		
Checked by		
Approved by		

November 4
~~October 27~~, 1981

Mr. John W. Coyne
Assistant Municipal Attorney
Municipality of Anchorage
Pouch 6-650
Anchorage, Alaska 99502

Dear Mr. Coyne:

RE: The Application of the Municipality of Anchorage
For a Certificate of Public Convenience and
Necessity to Operate as a Public Utility
Furnishing Garbage, Refuse and Trash
Collection and Disposal Service

With recognition of the fact that Staff agreed that responses to questions 3, 4 and 10 could be omitted and the request for exemption by the Municipality of Anchorage, a review of the above referenced application discloses that the application is deficient or otherwise incomplete in the following respects:

(1) The $50.00 application fee required by AS 42.05.661 and noted in instructional footnote 2 of the application has not been paid.

(2) The service area description, Exhibit E, is not set forth in township, range and section designations as requested in instructional footnote 3 of the application.

(3) The proposed tariff included with the application is not set forth in the format approved by the Commission as required by 3 AAC 48.200, 3 AAC 48.430 and as noted in instructional footnote 13 of the application.

In order that noticing of the application can be made and to avoid any further unnecessary delay in the processing of the application, you are requested to immediately remit the

FILED CORRESPONDENCE BY ____ & ____
ON ____

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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 TA139-120, by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY To Change the Conditions and Rates for Coin Telephone Service	U-81-33 ORDER NO. 2

ORDER EXTENDING SUSPENSION PERIOD AND REQUIRING SUPPLEMENTAL INFORMATION

Due to the workload and out-of-state commitments of the hearing panel in this proceeding and the desire by the full Commission to address the social issue raised by the utility's request to increase the rates for public and semi-public telephone service from 10¢ to 20¢ per call, the Commission will extend the suspension period in this Docket until March 1, 1982.

In addition, the Commission requests the utility to respond to the following questions:

1. Is it technically feasible to limit a coin telephone call in the utility's service area to three or five minutes? What would be the cost of imposing that limitation?

2. Do the utility's coin telephones presently operate on a "Dial Tone First" basis? If not, is it technically feasible to convert the utility's coin telephones to operate on that basis so that users can reach the operator or 911 without the requirement of the deposit of coins? What would be the timetable and cost of that conversion?

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Item 18

ORDER

THE COMMISSION FURTHER ORDERS:

1. The operation of the tariff revision, designated as TA139-120, filed by the Municipality of Anchorage d/b/a Anchorage Telephone Utility is suspended for an additional 90-day period not to extend beyond March 1, 1982.

2. By January 15, 1982, the Municipality of Anchorage d/b/a Anchorage Telephone Utility shall file the following information with the Commission:

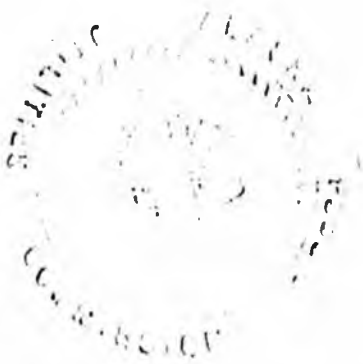
a. Is it technically feasible to limit a coin telephone call in the utility's service area to three or five minutes? What would be the cost of imposing that limitation?

b. Do the utility's coin telephones presently operate on a "Dial Tone First" basis? If not, is it technically feasible to convert the utility's coin telephones to operate on that basis? What would be the timetable and cost of that conversion?

DATED AND EFFECTIVE at Anchorage, Alaska, this 1st day of December, 1981.

BY DIRECTION OF THE COMMISSION
(Commissioners Stuart C. Hall, concurring in result, and Susan M. Knowles and Diana E. Snowden, not participating)

(S E A L)



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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 an Application for Amendment of Certificate of Public Convenience and Necessity No. 120 by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY To Include Elmendorf Air Force Base in Its Service Area	U-80-8 ORDER NO. 2
In the Matter of an Amendment to Certificate of Public Convenience and Necessity No. 19 held by MATANUSKA TELEPHONE ASSOCIATION INC., To Delete Elmendorf Air Force Base from Its Service Area	U-80-90 ORDER NO. 2

ORDER ESTABLISHING DATES FOR PUBLIC HEARING AND SUBMISSION OF PRE-FILED TESTIMONY

On February 29, 1980, the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY (ATU) filed with the Commission an application for an amendment of Certificate of Public Convenience and Necessity No. 120 to include Elmendorf Air Force Base (EAFB) in its authorized service area.

On November 13, 1980, the Commission, after noticing the application and reviewing the filing, issued Orders No. 1 in the above-captioned proceedings which in part: granted an amendment to the certificate of ATU to include that portion of EAFB that was not within the service area of MATANUSKA TELEPHONE ASSOCIATION, INC. (MTA); granted a temporary amendment to the certificate of ATU to include that portion of EAFB that was within the service area of MTA; and indicated a public hearing would be scheduled in

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Item 19 - LXVII 70

accordance with AS 42.05.271 to determine if the public convenience and necessity requires MTA's certificate No. 19 to be modified to exclude EAFB from its service area, and if so, whether the service area of ATU should be enlarged to include this area. ATU will have the burden of proving that MTA's certificate should be modified to satisfy the requirements of the public convenience and necessity. ATU will also bear the burden of proof that it is fit, willing and able to provide local exchange service to EAFB on a permanent basis. MTA will be required to present testimony relevant to these issues and its intention of providing service in this area of EAFB.

The Commission believes it would be conducive to a fair and expeditious disposition of the proceedings to require ATU and MTA to each submit a list of witnesses in the order of their appearance and to pre-file written prepared, instead of oral direct, testimony in accordance with 3 AAC 48.150(f). ATU and MTA will be specifically precluded from calling witnesses who have not submitted prepared written testimony. Exceptions may be granted by the Commission based on an offer of proof that a witness's testimony is necessary for a complete evidentiary record. Justification for the omission of the witness from the original witness list must be provided.

THE COMMISSION FURTHER FINDS AND CONCLUDES:

1. A public hearing should be scheduled in these proceedings in Anchorage, Alaska, at which time ATU will be required to show that the public convenience and necessity require that MTA's certificate be modified to exclude EAFB from its service area and that it is fit, willing and able to provide local exchange service to EAFB on a permanent basis.

2. ATU and MTA should be required to pre-file testimony in accordance with 3 AAC 48.150(f), together with lists of witnesses in the order of their appearance.

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ORDER

THE COMMISSION FURTHER ORDERS:

1. A public hearing shall be held at 9:00 a.m. on January 26, 1982, at the Commission's offices, 1100 MacKay Building, 338 Denali Street, Anchorage, Alaska. At the hearing, the Municipality of Anchorage d/b/a Anchorage Telephone Utility shall bear the burden of proving that the Certificate of Public Convenience and Necessity No. 19 of Matanuska Telephone Association, Inc., should be modified to exclude the service area within the boundaries of Elmendorf Air Force Base to meet the requirements of the public convenience and necessity. The Municipality of Anchorage d/b/a Anchorage Telephone Utility shall also bear the burden of proving that it is fit, willing and able to have permanent operating authority within the boundaries of Elmendorf Air Force Base.

2. The Municipality of Anchorage d/b/a Anchorage Telephone Utility shall file by 4:00 p.m., January 19, 1982, a list of witnesses in the order of their appearance and written prepared testimony for each witness.

3. Matanuska Telephone Association, Inc., shall file by 4:00 p.m., January 19, 1982, a list of witnesses in the order of their appearance and written prepared testimony for each witness relevant to the issues contained in Ordering Paragraph 1 and its plans for providing service in this portion of its service area.

DATED and Effective at Anchorage, Alaska, this 14th day of December, 1981.

BY DIRECTION OF THE COMMISSION
(Commissioners Marvin R. Weatherly and Susan M. Knowles, not participating)

(S E A L)

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has not yet been completed on the final Staff report. The Staff believes it is in the public interest that such a comprehensive and analytical report be submitted.

DATED this 15th day of December, 1981.

WILSON CONDON
ATTORNEY GENERAL

By Elisabeth H. Ross
Elisabeth H. Ross
Assistant Attorney General
Alaska Public Utilities
Commission Staff

ORDER

The Staff shall have until January 15, 1982 for the filing of its report on the Girdwood-Alyeska first normalized year of operation revenue requirement study.

DATED AND EFFECTIVE this 15 day of December, 1981, at Anchorage, Alaska.

Commissioner

This Order is designated as Order No. 13 in Docket U-80-4 and Order No. 4 in Docket U-81-36.

(SEAL)

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Item 20

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 TA148-120, by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY To Change the Rate Structure for the Provision of Basic Telephone Instruments	U-81-46 ORDER NO. 2

ORDER EXTENDING SUSPENSION PERIOD AND INCORPORATING INVESTIGATION OF STRAIGHT LINE FEATURE

On June 16, 1981, the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY (ATU) filed a tariff revision, designated as TA148-120, requesting a change in rates and rate structure to separate billing charges between service access lines and telephone instruments. ATU stated that this was necessitated by recent Federal Communications Commission (FCC) actions.

ATU's present tariff provides for basic local business or residence service which includes the first or main telephone instrument at no additional charge. An additional charge is assessed for each extension connected to the basic local service. In TA148-120, ATU proposed to eliminate the extension charge, but proposed to charge the customer for each instrument (including the main instrument) provided by the utility. ATU asserted that elimination of extension service charges and implementation of charges for instruments would result in virtually no net change in revenue.

The filing was noticed on June 24, 1981, with a closing date of July 23, 1981, for the submission of statements in support

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Item 21

of, or in opposition to, the proposed tariff revision. No public response was received.

On July 30, 1981, the Commission issued Order No. 1 in this Docket which suspended TA148-120 for an initial six-month period and required ATU to file its permanent revenue requirement in accordance with 3 AAC 48.275(a) and a concurrent unbundling of rates by November 1, 1981. The Commission found that it could not evaluate the reasonableness or fairness of ATU's proposed rates without this required information.

On November 4, 1981, ATU, through its attorney, submitted a letter of response to "various Staff and Commission concerns resulting from ATU's filing in Docket U-81-46 and ATU's attempts to satisfy those concerns." In this letter ATU attempted to provide a number of reasons why the Commission should accept the unbundling proposed in TA148-120, and should set work sessions with ATU to establish appropriate methodology for the performance of a cost-of-service study. ATU averred that due to the multitude of recent developments in the industry relating to FCC rulings, toll settlements, new tariffs, etc., a meaningful cost-of-service study cannot be performed without some guidance from the Commission. As an alternative, ATU suggested scheduling a public hearing at which ATU and Staff could present testimony concerning the filing.

The Commission is of the opinion that such a hearing is not appropriate at this time. The Commission wishes to reaffirm its position as set forth in Order No. 1 that the material filed with TA148-120 is insufficient to determine the reasonableness of the rates proposed. Although implementation of the proposed rates will not result in a net increase in revenues to ATU, it does constitute a rate increase because customers will now be charged for an individual service that has previously been part of the

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total monthly recurring charge - i.e., use of the main instrument. The Commission reiterates the necessity for a filing in accordance with 3 AAC 48.275(a) and a concurrent unbundling of rates prior to implementation of TA148-120. However, the Commission concurs with ATU that it is essential that some guidance be given in order to make that filing as meaningful and cost effective as possible. To this end, the Commission intends to issue at some time in the future a General Order providing guidelines concerning the methodology and information that must be submitted as a part of the tariff revision which requests unbundled rates. Therefore, the Commission believes it appropriate to extend the suspension period of TA148-120 until the Commission is able to provide this guidance to ATU.

Also, on November 5, 1981, the Staff filed a motion requesting the Commission to consolidate the investigation of the straight line feature telephone rates (U-81-29) with this proceeding. ATU stated it did not oppose the motion. The Commission had granted interim approval to rates for straight line feature telephones for the Rolm CBX, Rolm SCBX, and the SC-1 and suspended the filing for further investigation. Comtec, Inc., a company engaged in selling, installing, and maintaining telephone equipment, had filed a protest to the tariff revision request, but had never filed for intervention in the formal investigation proceeding.

The Commission observes that the suspension period in U-81-29 expired November 11, 1981. However, the rate investigation of the instrument group targeted in U-81-29 is one small subset of the investigation required and is incorporated in U-81-46, and it is the Commission's intention to investigate the straight line feature telephone rates into this proceeding.

ORDER

THE COMMISSION FURTHER ORDERS, That, the operation of the tariff revision, designated as TA148-120, filed by the

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Municipality of Anchorage d/b/a Anchorage Telephone Utility is further suspended until August 1, 1982.

DATED AND EFFECTIVE at Anchorage, Alaska, this 28th day of January, 1982.

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

(S E A L)

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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 Investigation into the Availability of Natural Gas to ALASKA GAS AND SERVICE COMPANY and Establishing a Procedure for Interrupting Natural Gas Service Power Plants as May be Required by Capacity or Deliverability Constraints and for Equitable Sharing of the Costs of Alternate Fuels	U-81-82 ORDER NO. 2

ORDER APPROVING PROCEDURES FOR INTERRUPTION OF SERVICE AND ESTABLISHING METHODOLOGY FOR ALLOCATING COSTS RESULTING FROM INTERRUPTIONS OF SERVICE

In response to concerns expressed by ALASKA GAS AND SERVICE COMPANY (AGAS) and its large power, interruptible customers, the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT AND POWER DEPARTMENT (ML&P), CHUGACH ELECTRIC ASSOCIATION, INC. (CEA), and the UNITED STATES OF AMERICA (Military), representing Elmendorf Air Force Base and Fort Richardson Military Reservation, the Commission opened this docket of investigation into the natural gas supply situation in the Anchorage Bowl, procedures for interruption of natural gas service to the power plant customers, and cost-allocation methodologies associated with those service interruptions.

Background

The above-named parties notified the Commission, both orally and in writing, that AGAS was facing a potentially inadequate supply of natural gas during the 1981-82 winter season, a situation arising not only from a higher winter heating demand placed upon the AGAS system but also from a contract dispute

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between AGAS and the State of Alaska, Department of Revenue, regarding the price of royalty gas which AGAS normally purchases to meet cold weather demands.

Order No. 1, issued November 3, 1981, which instituted this proceeding, also scheduled a public hearing on November 9, 1981, during wnich the following issues were addressed through oral testimony:

1. Should AGAS be required to take royalty gas at any price; and, if so, how should the costs be recovered?

2. How should the costs of interruptions be computed?

3. Once the costs are computed, how should they be passed on?

The Commission also requested the parties to submit briefs of their statements prior to the hearing in order to expedite the proceeding. Briefs were submitted by the parties, with the exception of CEA, on November 6, 1981.

The Commission convened the public hearing at 1:30 p.m., November 9, 1981, in the Commission's hearing room. The hearing was conducted before Commissioners Marvin R. Weatherly, Stuart C. Hall, and Diana E. Snowden, with Commissioner Weatherly serving as Presiding Officer.

The parties were represented as follows: AGAS by Dale Teel, President, and Bill Hickman, Vice President and Treasurer; ML&P by Thomas R. Stahr, General Manager, and Roger R. Kemppel, Attorney; CEA by its counsel William J. Moran, and Thomas S. Kolasinski, Manager of Power Production; and the Military by Lieut. Colonel Harold A. Froehle, Director of Facilities & Engineering, U.S. Army, Ft. Richardson; Lieut. Colonel Theodore R. Kinney, USAF, Chief, Operations Branch, 21st Civil Engineering Squadron, Elmendorf A.F. Base; Capt. Diane E. Savage, U.S. Army, Staff Judge Advocate, Fort Richardson, as Counsel; and David A.

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Slenkamp, Chief of Utilities, Ft. Richardson. Also present were Carolyn Evans, Utility Financial Analyst III on the Staff of the Commission, and Assistant Attorney General, Elisabeth Ross, both of whom served in an advisory capacity to the Commission in this proceeding.

Stipulation By Parties on Order of Interruption

Prior to the hearing, AGAS submitted a Stipulation requesting Commission approval of a proposed sequence of natural gas interruptions among the large power customers, delineated in Exhibit A thereto. The Stipulation also sought Commission development of a cost-allocation methodology for alternate fuel expenses incurred during gas curtailments. While not necessarily opposing the Stipulation, Thomas Stahr of ML&P offered an alternative to the AGAS proposal in his comments submitted prior to the hearing:

> Interruption of industrial customers should also be considered to conserve alternate fuels for residential and commercial use. In addition to reducing fuel use for electric generation, the ensuing shutdown of industrial processes could make considerable amounts of process gas available. Certainly this would have to be done with discretion to avoid interrupting the flow of materials critical to other areas of the state. It is possible that a voluntary curtailment plan with partial redirection of feed stock gas to the utility (gas and electric) sector could be arranged as this would be more rational than total interruption of industrial electric service. (Stahr letter to APUC, dated October 15, 1981, pp. 2-3.)

At the hearing, Commissioner Weatherly requested formal comment regarding any problems inherent in the schedule of interruptions prepared by AGAS in its Stipulation. All parties were in agreement that natural gas interruptions were ineluctable at some point in time during the 1981-82 winter season. (The Commission notes that, subsequent to the November 9, 1981, hearing, but prior to the issuance of this Order, interruptions caused by extreme cold weather and heavy heating demand did, in fact, occur.)

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At no time during the hearing did any of the parties dispute either the need for or the substantive content of AGAS's proposed schedule of interruptions.[1] However, the Military's concurrence was conditioned on the fact that they be reimbursed for expenses incurred during periods of interruption, since without a cost-sharing methodology, the Military would be penalized with "...the entire brunt of the curtailments." (Tr., p. 8.) None of the other parties presented further comment on the Stipulation, nor did ML&P pursue the alternative approaches suggested in its October 15, 1981, letter to the Commission.

The interruptible customers all utilize natural gas in power plants but have varying capabilities to operate utilizing alternate fuels. All parties agree that the short-term use of alternate fuels will entail substantial additional costs over the short-term cost of natural gas. Except for differences in cost-sharing approaches, all parties concur that it is in the public interest that interruptions in the natural gas supplied to these customers occur in a specific order to minimize the inconvenience and cost of alternative fuel usage to the community as a whole. In its review of the proposed Stipulation and its attachments, written comments of the parties, and the oral testimony presented at the hearing, the Commission finds that the urgency of the curtailment problem, the need for prompt agreement by all parties to this proceeding, and the insufficient time available to explore and perhaps implement an alternative curtailment procedure, collectively dictate that the Commission accept the proposed procedure for interruptions as a short-term plan for dealing with

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[1] As a point of clarification, CEA requested that Exhibit A to the Stipulation, Schedule for Planned Interruptions, be modified to assure that Chugach is afforded the flexibility to determine which of its power plants (i.e., Bernice Lake or International Station) should be the first to be interrupted and/or restored.

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