ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6647 SENATE STATE AFFAIRS

1251

For example, a family of two receives $692 per month in AFDC support (see attached table). During the month they receive their $800 PFDs, they would be ineligible for the $692 payment. Under the hold harmless provision, the PFD account would reimburse the family for the lost payment of $692. Loss of transfer payments as a result of PFD payments is paid dollar-for-dollar under the hold harmless provision. As long as the family spends their PFD income so that they hold $1,000 or less in cash during subsequent months, there would be no resource issue, and there would be no further hold harmless costs for the year. The DOR did not include resource costs in their computation of potential hold harmless costs. Recipient loss of eligibility as a result of excess resources occurs infrequently--of the $9 to $10 million budgeted for hold harmless in FY 90, less than $225,000 is expected to be caused by excess resources. As PFDs continue to grow, however, resource issues could cause hold harmless costs to increase.

If PFDs were paid more frequently--either quarterly or monthly--the potential problem of excess resources would be decreased. Hold harmless costs as a result of overpayment, however, would be significantly increased because of the current size of PFDs. As mentioned above, two simultaneous PFD payments of $800 results in a $692 overpayment (overpayments cannot be negative) which is reimbursed under hold harmless. If the PFD's had been paid in quarterly installments, hold harmless payments could total $1,600; because of four $400 overpayments. In general, larger family size and more frequent payments would further increase hold harmless costs. If PFDs were paid in two installments, hold harmless costs would almost double; quarterly payments would result in an approximate tripling of costs. With monthly payments, the cost of hold harmless payments would be even greater--and would effectively displace federal AFDC payments.

The DOR's memorandum considered only the hold harmless costs of paying PFDs in two payments. These costs are much easier to discern than more frequent distributions. In general, the size of the PFD is sufficient to require hold harmless costs to be paid even if PFDs were paid in two or more installments. The complexities of the transfer payment system, plus uncertainties such as family size and other financial resources, makes the determination of hold harmless costs under more frequent installment scenarios more difficult to determine. However, it is clear that more frequent distribution of PFDs will increase hold harmless costs. Because these costs are deducted from the PFD account, multiple payments will reduce the size of PFDs. As the size of PFDs grow which they are expected to continue to do so, resource ineligibility may become more of a problem. Under those conditions, more frequent payments might reduce hold harmless costs.

Effects on the Alaska Economy

As mentioned in DOR's memorandum, payment of PFDs in two installments during the winter months would have the benefit of smoothing out the seasonal fluctuations of personal income in Alaska. We considered the effects of more frequent payments of smaller amounts on the overall leakage of dividends out of the state economy.[1] It is likely that more frequent payments would have only a small beneficial effect on leakage. This would be true to the extent that recipients used PFDs more frequently for day-to-day living expenses that entailed purchases of Alaska services or manufactured goods.

For the purpose of this analysis, use of PFDs falls into four general categories--savings, day-to-day expenses, capital purchases, and luxury items. Because PFDs are a relatively small component of permanent income for the majority of Alaskans, shifts in the use of PFDs are probably influenced more by changes in the rest of an individual's permanent income than by the frequency of PFD distribution. Therefore, payment of PFDs in installments is not likely to have a significant effect on how people currently use their PFDs. For example, people who save PFDs would probably continue to do so.

There could, however, be some shift from the purchases of cars and furniture (examples of capital goods) and airline tickets (an example of a luxury good) to day-to-day expenses such as groceries or clothing because the smaller size of the payments would require a recipient to save installments in order to have the amount of cash-in-pocket that occurs in the existing system. The leakage from items such as groceries and clothing is probably no less than from capital and luxury goods because the majority of all these items have little value added in Alaska. Instead, the profit margin--which is retained in Alaska--on the capital and luxury good may be greater than on the day-to-day expenses. Therefore, larger purchases may result in a smaller leakage. As mentioned above, only to the extent that smaller dividend payments would result in the increased use of PFDs to purchase Alaska services or manufactured items would there be any economic benefit of reduced PFD leakage from the state.

I hope this information is useful and answers your questions. If you would like the Department of Health and Social Services to do a more in-depth analysis or the Division of Permanent Fund Dividends to complete a fiscal note, please let me know. Also, if you have additional questions, please do not hesitate to call.

Attachments

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[1]Economists generally measure the effects of expenditures on a state or local economy in terms of the multiplier effect which measures the additional rounds of expenditures an initial expenditure creates. The magnitude of this "ripple" effect in the economy is influenced by the amount of leakage of the expenditure out of the state or local economy.

STANDARDS AND MAXIMUM PAYMENTS

AFDC	11.2% 7/1/81	7.4% 7/1/82	STDS. CHG. 1/1/83	3.5% 1/1/84	3.5% 1/1/85	3.1% 1/1/86	7/1/86	1.3% 1/1/87
A1 2	508	546	597	617	638	657	657	665
3	571	614	674	696	719	740	740	749
4	634	682	751	775	800	823	823	833
5	697	750	828	854	881	906	906	917
6	760	818	905	933	962	989	989	1001
7	823	886	986	1012	1043	1072	1072	1085
EA ADD	63	68	77	79	81	83	83	84
ANI 1	222	238	238	246	254	261	261	264
2	445	476	476	492	508	522	522	528
3	508	544	553	571	589	605	605	612
4	571	612	630	650	670	688	688	696
5	634	680	707	729	751	771	771	780
6	697	748	784	808	832	854	854	864
7	760	816	861	687	913	937	937	948
EA ADD	63	68	77	79	81	83	83	84
SINGLE ADULT/PREGNANT WOMAN* (11/1/83)	286	308	*359 *382	*391	404	416	416	421
**ADDITIONAL INCREMENT FOR INCAP. SPOUSE (4/1/84)				**145	**150	**154	**154	**156
APA							WASKY SUIT	
INDIV. -35	426	426	546	566	586	605	624	632
+35	526	526						
COUPLE -35	638	638	802	830	859	887	925	937
+35	773	773						
N.H.P. NEEDS:	35	70	70	70	70	70	70	70
- INDIV. B			451	466	482	497	516	523
- B ELIG. COUPLE			660	683	707	730	768	778
- A COUPLE, 1 INELIGIBLE			660	683	707	730	749	759
- B COUPLE, 1 INELIGIBLE			518	536	555	573	592	600
- Nursing Home 300% Cases				942	975	1008	1020	1020
SSI STANDARDS:								
- INDIV. "A" LVG. ARR.				314	325	336	336	340
- INDIV. "B" LVG. ARR.				209.34	216.67	224	224	226.67
- COUPLE "A"				472	488	504	504	510
- COUPLE "B"				314.67	325.34	336	336	340
APA-SSI RESOURCE LIMITS								
- Individual				1500	1600	1700	1700	1800
- Couple				2250	2400	2550	2550	2700

MEMORANDUM

State of Alaska

TO: Ginny Fay
House Research Agency

DATE: October 10, 1988

FILE NO: 5892G

TELEPHONE NO: 465-2300

THRU:

SUBJECT: Spreading Out Permanent Fur Dividends in Two Annual Installments

FROM: Cliff Groh, Special Assistant to the Commissioner
Department of Revenue

You asked the Department of Revenue to lay out the economic benefits and the administrative costs of paying Permanent Fund Dividends in two installments.

This is an effort to outline the kinds of costs and benefits which might be produced by this change. It is not a full-dress fiscal note, bill analysis, or position paper.

We assume that the residency period and filing period would not change. The only change would be that while the first installment would come during the October-December period (when most dividends are paid out), the second payment would occur sometime between January and June. We assume that the two payments would be equal, and that this payment plan would be required for all recipients.

The costs of this change would be substantial, both in direct administrative costs to the Department of Revenue and the "hold harmless" costs in public assistance payments borne by the Department of Health and Social Services.

The most obvious costs are the costs in paper and postage from printing and mailing two warrants instead of one. The doubling of the checks would also require a substantial increase in computer programming. A number of people would move during the period between the issuance of the two warrants; keeping track of these movements would necessitate a significant increase in staff to handle the changes of address. R. Michael McGee, Acting Division Director, thinks that monitoring all these move its might require the creation of a new accounting system for the program.

Public inquiries about dividend receipts and timing of payments would probably more than double. The Department would expect increases in telephone and office contacts as well as correspondence. These public contacts would come from people who wanted to attach dividends as well as from people who originally applied.

Mr. McGee thought that the change to a two-installment plan might require a total spending increase by the Department of 40 percent of the Permanent Fund Dividend Division's budget, which would represent more than $1 million.

The additional "hold harmless" costs would be much higher. Randy Moore of the Department of Health and Social Services estimated August 5 that this change would increase "hold harmless" costs by $6 million to $10 million annually. The biggest impact would be on Aid for Families with Dependent Children, which produces most of the costs in "hold harmless" already.

The costs of administering the dividend distribution and the "hold harmless" program are of course taken out of dividends themselves. The estimated total costs of the change to installments in the two departments would probably be in the $6 million to $11 million range. Assuming 500,000 - 550,000 eligible recipients, this reduces each dividend by between $11 and $22.

The economic benefits of the change are more difficult to estimate. Gregg Erickson, senior economist at the Governor's Office's Division of Policy, did not believe that the benefits would be great. He did say that the economic effects would depend somewhat on when the second installment was paid. He thinks that one big stimulating factor for dividends is that they are "countercyclical": they come out in the fall and winter when Alaskan's incomes are lower than they are in the summer. Erickson predicts that paying the second installment of dividends in February, for example, would have a modest positive impact by smoothing out spending. He thinks this smoothing out would make the economy marginally more efficient.

CG:bro

cc: Ervin Jones, Director
Permanent Fund Dividend Division

R. Michael McGee, Chief-Operations
Permanent Fund Dividend Division

Royce Weller, Assistant Commissioner
Alaska Department of Revenue

5892G

LEGISLATIVE TELECONFERENCE NETWORK

SIGN-IN SHEET

SPONSOR: Senate State Affairs

SUBJECT: SB 203: payment of perm. fund dividends
SSB

START/END TIME: 1:30-3:30 DATE: 1/19/90

PLEASE PRINT

	NAME/REPRESENTING	ADDRESS	PHONE#	TESTIFY	OBSERVE	BILL #
1	Royce Weller	BOX 5 Juneau	465-7300	X		SB203
2	Erwin Jan	Box 0462 Juneau	2323		Annl Quesny F.N.	SB 203
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Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling

P.O. Box V
State Capitol
Juneau, Alaska 99811

907-465-3712

Senate State Affairs Committee

MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot

RE: Friday, January 19 Committee Hearing

DATE: January 18, 1990

On Friday, January 19 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SB 203. An Act relating to an option for receiving permanent fund dividends in installment payments; and providing for an effective date.

SB 203 would allow for periodic or installment payments of Permanent Fund dividends. This concept was proposed by the Anchorage Coalition of Small Businesses to provide more consistent economic stimulation. SB 203 would allow applicants to elect annually to receive a lump-sum payment or to receive four installment payments over a 12-month period. Section 1 deals amending the $10 contribution to the Alaska Winter Olympics account to avoid the possibility of four contributions if an applicant chose the installment plan. SB 203 has a significant cost impact, both in direct administrative costs and the hold harmless costs in public assistance payments borne by the Department of Health and Social Services.

SSSB 341. An Act making an appropriation to the disaster relief fund; making appropriations from the disaster relief fund for relief of flooding and replacement of a high school; and providing for an effective date.

SSSB 341, appropriates $7,411,452 from the general fund to the disaster relief fund. $5,411,452 is appropriated from the disaster relief fund for the purpose of meeting past disaster needs for flood damage in the Kenai area in 1986 and for flood damage in the Anchorage area; along the Yukon-Kuskokwim Rivers and in the Kenai Peninsula Borough in 1989. It would also allow for a $1,224,354 grant to the Bering Straits School District towards the replacement of Stebbins High School, which was destroyed by fire in 1989.

$2,000,000 would be held in the disaster relief fund to meet projected needs through the end of FY 90. The fund currently sits at approximately $500,000 with close-outs and disasters pending.

Draft Kallas.ltr

SB 203

OK Pat

January 22, 1990

George Kallas
Beef N Sea Restaurant
3230 Seward Highway
Anchorage, AK 99503

Dear Mr. Kallas;

Thank you for participating in the hearing on Senator Pearce's Senate Bill 203, an Act relating to receiving permanent fund dividends in installment payments. I appreciate the input you and the other members of the Anchorage Coalition of Small Businesses gave to the Senate State Affairs Committee.

Please find enclosed a copy of the fiscal note for FY91 through FY96 and the position paper prepared by the Department of Health and Social Services. Both reflect the significant cost impact that SB 203 would have in both direct administrative costs and the hold harmless costs in public assistance payments borne by the Department of Health and Social Services. Please share the information with the Coalition and encourage them to contact Senator Pearce and /or my office with comments.

Thank you. I look forward to hearing from you.

Sincerely,

Senator Pat Pourchot

Alaska State Legislature

3111 C Street, Suite 150
Anchorage, Alaska 99503
(907) 561-2038

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: Senator Pat Pourchot, Chair
Senate State Affairs

FROM: Senator Drue Pearce Drue Pearce/jf

RE: Senate Bill 203

DATE: March 26, 1990

On January 19, 1990, you heard Senate Bill 203 in Senate State Affairs Committee. At the conclusion of that meeting, you said that your committee staff would research several issues associated with this bill.

I request your assistance beginning that research. I am eager to know the results so that we may continue working on SB 203 in your committee with the goal of moving it.

DP:jf

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: SB 203
PUBLISH DATE:

FISCAL NOTE

REQUEST

Revision Date:
Title: An Act relating to an option for receiving PFDs in installments
Sponsor: Pearce
Requestor:

Agency Affected: Revenue
BRU: Permanent Fund Dividend Division
Components: Permanent Fund Dividend Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	240.7	259.9	259.9	259.9	259.9	259.9
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	59.6	155.8	155.8	155.8	155.8	155.8
SUPPLIES	5.5	6.0	6.0	6.0	6.0	6.0
EQUIPMENT	73.1	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	378.9	421.7	421.7	421.7	421.7	421.7
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER (PFD)	378.9	421.7	421.7	421.7	421.7	421.7
TOTAL	378.9	421.7	421.7	421.7	421.7	421.7

POSITIONS:

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
FULL-TIME	5	6	6	6	6	6
PART-TIME	6	6	6	6	6	6
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See Attached.

Prepared By: Ervin Jones
Division: Permanent Fund Dividend Division
Phone: 465-2323
Date: January 18, 1990

Approved by Commissioner: T J Malone
Agency: Revenue
Date: Jan 19, 1990

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
SB 203
January 18, 1990

Assumptions

1. With an immediate effective date, this bill will go into effect for the 1991 permanent fund dividend; therefore, there will be no impact in FY 90.

2. SB 5 (Longevity Bonus Annuity) will not become law.

3. Approximately 25% of all individuals who apply to receive a dividend or who claim a dividend on behalf of another will opt for the installment payment option. This will generate an additional 390,000 warrants each year [.75W+(.25 X 4)]520,000 - 520,000 = 390,000]

4. Dividends will continue to be processed and paid in the order received, and continue to be paid during the period of October 1 - December 15 at the rate of 50,000 per week (see recommended amendment #1).

5. The distribution of garnishments is even throughout the population; i.e. 25% of all applicants garnished will be those who elect quarterly payments, thereby increasing the number of garnishments by 75% [.75 + (.25 X 4)] = 1.75. Based on the approximately 30,000 garnishments received in 1989, this will generate an additional 22,500 writs of execution to be processed.

6. The payment of eligible applicants who elect deferred quarterly payments will be accomplished by transferring their accounts to a new separate accounting system which will interface with the Permanent Fund Dividend master system, the Permanent Fund Dividend garnishment sub-system, and the Alaska State Accounting System (AKSAS).

7. All dividend payments to be made on a deferred quarterly basis will be paid at the same time, regardless of when an applicant is approved for payment (12/20, 3/20, 6/20, 9/20). A person who is approved for payment after the first quarterly payments are made for a year, will be issued their first payment at the next payment date, receiving the cumulative amount that would have been received had they been approved for payment on or before the first quarterly payment was done. Thereafter, they would receive normal quarterly payments (e.g. an applicant approved for payment on February 10 would receive 50% on 3/20; 25% on 6/20, and 25% on 9/20).

8. No interest will be paid on deferred quarterly payments.

9. The Department of Revenue would be required to report to the IRS only those installment payments actually paid during the calendar tax year. It should be noted that under the tax

principle of constructive receipt, if a person has control over the timing of receipt of income, they may have to pay tax on the full amount of income as if they received it. In other words, a person electing quarterly installments may be paid only 1/4 of the total dividend in the dividend year, but would probably have to pay tax on the full amount as if it were received. The Department of Revenue would then have to modify the Permanent Fund Dividend tax reporting sub-system to account for not only actual dividend payments, but also deferred payments, and to subtract out the deferred payments the next year. The permanent fund dividend warrant print programs would be modified to notify installment payees of their tax liability (1099 check stub).

10. Applicants who choose to assign their dividend, in whole or part, or who are garnished by a government agency will not be allowed to elect quarterly payments.

11. Returned quarterly installment payments will be cancelled and placed back in the dividend fund, to be reissued upon contact from the applicant. Subsequent installment payments will be automatically held until such contact is made. Again, this would require complex logic in the new Permanent Fund Dividend installment accounting sub-system.

Program Summary

The Department of Revenue would modify the 1991 permanent fund dividend forms and instructions to provide for the installment election. The entire Permanent Fund Dividend automated system would be re-written to accommodate the changes, including approximately 450 COBOL and CICS programs that comprise the master system, archive system, garnishment sub-system, tax reporting and withholding sub-systems and the data entry programs. A separate accounting system would be created to account for the deferred installment payments. See above assumptions.

All applications would be screened for the election as they are data captured. All 390,000 incremental installment warrants, plus the cancelled and reissued warrants will have to be processed by the banking system and microfilmed by the Permanent Fund Dividend Division at an additional cost. Based on assumption #13, approximately 4,335 of these will be returned and cancelled, 3,400 to be reissued.

As with any change to the Permanent Fund Dividend program, the public will respond with tens of thousands of additional contacts. In FY 89, the division received over 246,000 individual public contacts. Most of the contacts received from October through March are "where's my check?" With multiple payments, this type of contact will obviously increase proportionate to the increase in frequency of payment. Additional help will be needed at the Dividend Information Offices statewide and additional phone lines will be needed to accommodate an expected 50,000 additional contacts per year.

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
SB 203
January 18, 1990

The estimated cost of implementation of this bill is as follows:

	FY 91	FY 92	FY 93
1. **Positions**			
Data Processing			
2 Analyst/Programmers IV, R19 @ $4,524.38/mo. including salary and benefits, for 12 months to assist in rewriting programs and creating new installment accounting sub-system to be ready by March 1, 1991 for testing. (FY 91 only)	$108.6		
1 Analyst/Programmer IV, R19 @ 4,524.38/mo. including salary and benefits, for 12 months to maintain new systems and assist in writing modified or more complex system programs. (beginning FY 92)		$54.8	$54.8
Data Entry			
2 Data Processing Clerk I's, R8, @ 2425.52/mo. including salary and benefits for 3 months.	$14.6	$14.6	$14.6
Dividend Information Centers			
Anchorage			
2 Document Processor II's, R8, @ 2425.52/mo. including salary and benefits for 12 months.	$58.2	$58.2	$58.2
2 Document Processor II's, R8, @ 2425.52/mo. including salary and benefits for 3 months.	$14.6	$14.6	$14.6
Juneau			
2 Document Processor II's, R8, @ 2425.52/mo. including salary and benefits for 3 months.	$14.6	$14.6	$14.6

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
SB 203
January 18, 1990

	FY 91	FY 92	FY 93
Fairbanks			
1 Document Processor II, R8, @ 2505.54/mo. including salary and benefits for 12 months.	$30.1	$30.1	$30.1
Accounting			
1 Accounting Clerk III, R10 @ $2697.21/mo. including salary and benefits for 12 months, to maintain new installment accounting system, IRS reporting system and assist with garnishment sub-system which will increase by approximately 23,000 garnishments.		$32.4	$32.4
1 Accounting Supervisor I, R14 @ $3386.20/mo. including salary and benefits for 12 months to supervise accounting controls and garnishments.		$40.6	$40.6
Total Personal Services	$240.7	$259.9	$259.9
2. Travel: None.			
3. Contractual:			
a) Printing costs: 390,000 extra PFD warrants and envelopes, plus 3,400 reissued warrants.		$10.4	$10.4
b) Postage: for 390,000 warrants and 3,400 reissued warrants, and postage for returning and responding to extra garnishments.		$108.4	$108.4
c) Telephone Lines: 3 additional lines.	$2.4	$2.4	$2.4
a) Department of Administration Chargeback (estimated); additional disc space and computer time. New system will require new disk drive.	$45.2	$22.6	$22.6
c) Maintenance: for 11 Wang 4250 terminals with emulator boards for new positions, Wang maintenance @ $90.00/mo.)	$12.0	$12.0	$12.0
Total Contractual	$59.6	$155.8	$155.8

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
SB 203
January 18, 1990

	FY 91	FY 92	FY 93
4. Supplies:			
Microfilming supplies to microfilm additional warrants	$0.5	$0.5	$0.5
Misc. office supplies for additional personnel.	$5.0	$5 5	$5.5
Total Supplies	$5.5	$6.0	$6.0
5. Equipment			
Purchase 11 Wang PC240 terminals with emulator boards for additional personnel @ $2840/each.	$31.2		
1 IFM Control Unit	$8.5		
Systems furniture for additional personnel	$33.0		
2 Calculators for Accounting unit	$0.4		
Total Equipment	$73.1	-0-	-0-
Total Operating Cost:	$345.0	$369.5	$369.5

Suggested Amendments:

Sec. 1 refers to the Winter Olympics account/check-off. Given the current situation, this should be removed and SB 102 should be passed by the House to clean up the statutes.

Sec. 2 amends AS 43.23.005 (ELIGIBILITY) by adding a new subsection allowing an individual to select a lump-sum payment or quarterly installment payments of the dividend. This subsection does not deal with eligibility and should instead be a new subsection (c) to AS 43.23.025 (AMOUNT OF DIVIDEND).

Sec. 3 amends AS 43.23.025(a) by adding a sentence stating that the first installment payment of a dividend shall be paid by December 1. Since the Department of Revenue is still making payments through the middle of December, this date should be changed to December 31.

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: SB 203
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date: 3/3/89
Title: Option for receiving PFD in installment payments
Sponsor:
Requestor:

Agency Affected: Health and Social Services
BRU: PFD Hold Harmless
Components: PFD Hold Harmless

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	-0-	722.2	722.2	722.2	722.2	722.2
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	47.5	47.5	47.5	47.5	47.5
SUPPLIES	-0-	3.8	3.8	3.8	3.8	3.8
EQUIPMENT	-0-	57.0	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	3853.5	4046.1	4248.5	4460.8	4683.8
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	4684.0	4819.6	5022.0	5234.3	5457.3
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER PERM FUND	-0-	4684.0	4819.6	5022.0	5234.3	5457.3
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	19.0	19.0	19.0	19.0	19.0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

See Attached

No fiscal impact in FY90.

Prepared by: John R. Taber, Director
Phone: 465-3347
Division: Public Assistance
Date: 1/19/90

Approved by Commissioner: Myra M Munson
Date: 1/19/90
Agency: Health and Social Services

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

page ___ of ___

Department of Health & Social Services
Division of Public Assistance

OVERVIEW

The PFD Hold Harmless provisions protect individuals from losing eligibility for AFDC, Food Stamp, Medicaid, or SSI Program benefits, or from having benefit levels reduced, when federal law requires that dividend payments be treated as income or resources; benefits which would otherwise be denied because of federal requirements are paid with state "hold harmless" funds. The funding source for these hold harmless benefits is the Permanent Fund. Under the current PFD program recipients may receive hold harmless benefits for up to four months each year, but in most cases no more than one month of coverage is needed, because most recipients quickly spend their annual dividends. Few assistance households retain enough of their PFD payments to cause ineligibility beyond the initial month of hold harmless coverage.

The introduction of a quarterly PFD payment option, as proposed in SB 203, alters substantially the effect of the dividend payments on the four assistance programs under discussion here. If a public assistance recipient chose to receive quarterly payments, there would be an impact on eligibility for assistance for at least four months during the period over which payments were distributed, and in most cases, hold harmless benefits would have to be paid for each of those months.

The following compares the PFD Hold Harmless coverage for an AFDC family of three receiving the dividend on a annual basis vs. quarterly.

Current Annual Dividend Distribution

	Total Dividend Amount	AF Cash Assistance Max Pymt	AF-PFDHH Amount	Hold Harmless Months
Total Annual	$2772 (3x$924 PFD)	$846 (Family of 3)	$846	One

Proposed Quarterly Dividend Distribution

	Total Dividend Amount	AF Cash Assistance Max Pymt	AF-PFDHH Amount	Hold Harmless Months
First Quarter	$693 (3x$231 PFD)	$846	$693	One
Second Quarter	$693	$846	$693	One
Third Quarter	$693	$846	$693	One
Fourth Quarter	$693	$846	$693	One
Total Annually	$2772		$2772	Four

The Dividend must be treated as income in the month of receipt. Under the quarterly distribution there are four months of hold harmless providing coverage for the total amount of the dividends and tripling the hold harmless cost compared to the annual distribution ($2772 vs. $846).

PFD Hold Harmless Program Coverage

The PFD Hold Harmless is dependent on entitlement program caseload, the dividend amount, the way each program regards the dividend, and how the PFD affects eligibility.

In estimating the PFD Hold Harmless cost under a quarterly dividend distribution plan we have assumed 25% of the projected welfare caseload would choose quarterly payments. As the rate of participation in a quarterly plan increases, then the hold harmless obligation increases. We assume a PFD amount of $924 with the quarterly option available for the 1991 permanent fund dividend (FY92). The following identifies PFD Hold Harmless for recipients participating in a quarterly dividend plan.

Program	Cases Participating in Qtr Plan	PFD Hold Harmless at Annual	PFD Hold Harmless at Quarterly	Difference (Increment Increase)
AFDC	2225	1600.0	4420.5	2820.5
SSI/APA	1580	652.0	782.0	130.0
Food Stamps	2130	475.0	1378.0	903.0
		Increment Increase in PFD Hold Harmless client benefits if 25% of the caseload opts for the installment option		3853.5

1. Under the AFDC program, federal law requires that the dividend payment be treated as income in the month of receipt and as a resource thereafter. A dividend payment of as little as $350 per person would still place all AFDC families over the federal qualifying limits. The quarterly dividend nearly triples the cost of PFD hold harmless for AFDC recipients opting for the installment option and results in four months of hold harmless.

2. The federally-administered Supplemental Security Income (SSI) program treats PFD payment as countable income. A dividend of $717 places all Adult Public Assistance (APA) clients over the State qualifying limits. The quarterly dividend payments increase PFD hold harmless for APA recipients by roughly 20 percent and result in four months of hold harmless.

3. Food Stamp Program policy now treats the PFD as income in the month of receipt and as a resource thereafter. The quarterly dividend triples the cost of PFD hold harmless for Food Stamp recipients and results in four months of hold harmless.

4. Medicaid Hold Harmless is generally expended in behalf of APA and AFDC recipients who suffer resource ineligibility when their retained Dividend (in the month(s) following receipt) places them over the SSI/APA or AFDC resource limits. This analysis assumes no change in Medicaid eligibility rules if the quarterly distribution were implemented and no new Medicaid hold harmless cost.

PFD Hold Harmless Administration

An optional quarterly distribution of PFD payments would confront public assistance staff with a vast amount of additional work, tracking its caseloads for the more frequent dividend payments and taking action to authorize hold harmless benefits.

In a single assistance household, some members could choose an annual PFD payment, while others elected the quarterly option. The complexities of case processing under such a system would be overwhelming. We would be forced to impose additional reporting responsibilities on our clients to ensure accurate eligibility determinations. When client reporting responsibilities are increased, some eligible people lose benefits because, for one reason or another, they fail to comply with the requirement and their benefits are terminated. A most serious deterioration of service quality would derive from the diversion of eligibility staff time away from normal service delivery activity, toward tracking dividend payments and processing related case changes. The only way to prevent such deterioration would be to provide additional staff to handle the increased workload.

Each month the Division authorizes and issues benefits on roughly 27,700 program cases that require on-going review for possible case action. The proposed quarterly PFD option would significantly increase field staff case maintenance activity. We estimate 5 minutes per program case monthly for the increased workload.

Allowing an average increase of five minutes per program case monthly results in the following new staff need.

Position Title	Location	SR	S+B	FTE	Total Per Serv
Eligibility Tech I/II	Statewide	12B	39,023	14.0	546,322
Clerk III	Statewide	8B	30,204	3.0	90,612
Eligibility Tech IV	Statewide	15A	42,633	2.0	85,266
	Personal Services			19.0	722,200
	Contractual for communication and office space at $2500 per position				47,500
	Commodities at $200 per position				3,800
	Equipment for one-time purchase of workstation at $3,000 per position				57,000
	TOTAL				830,500

The focus of this analysis is the fiscal impact of the optional quarterly dividend. Hold harmless cost increases will be influenced by future caseload growth, the amount of the dividend, and public assistance qualifying standards. All these factors combined influence hold harmless cost, however, the potential for significant increment increases relies more on the actual number of clients participating in a quarterly dividend program. The more that opt for the quarterly option the greater the financial impact on PFD Hold Harmless.

In FY93-96 we assume caseload and payment standards increase will impact PFD hold harmless coverage at a 5 percent annual rate and the quarterly option client participation rate remains at 25% of the total caseload.

POSITION PAPER/Department of Health & Social Service

POSITION PAPER

Senate Bill 203

"An Act relating to an option for receiving Permanent Fund Dividends in installment payments, and providing for an effective date."

Introduction

The changes in the Permanent Fund Dividend (PFD) program which are proposed in SB 203 would have a severe impact on Alaska's federally-funded public assistance programs, and on the cost of the benefits paid under the PFD "hold-harmless" provisions of current law.

Although there is substantial variation in the way each program currently regards Permanent Fund Dividends, the PFD payments affect eligibility and payment amounts in three state-administered, federally-funded programs: Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicaid. The federally-administered Supplemental Security Income (SSI) program also treats PFD payments as countable income. The hold-harmless provisions at AS 43.23.075 protect individuals from losing eligibility for AFDC, Food Stamp, Medicaid, or SSI program benefits, or from having benefit levels reduced, when federal law requires that dividend payments be treated as income or resources; benefits which would otherwise be denied because of federal requirements are paid with state funds.

The costs of these hold-harmless benefits are borne by the Permanent Fund Dividend program. Under the current PFD program, recipients may receive hold-harmless benefits for up to four months each year, but in most cases no more than one month of coverage is needed, because most recipients quickly spend their annual dividends. Few assistance households retain enough of their PFD payments to cause ineligibility beyond the initial month of hold-harmless coverage.

The introduction of a quarterly PFD payment option, as proposed in SB 203, alters dramatically the effect of the dividend payments on the four assistance programs under discussion here. If a public assistance recipient chose to receive quarterly payments, there would be an impact on eligibility for assistance for at least four months during the period over which payments were distributed, and in most cases hold-harmless benefits would have to be paid for each of those months. Instead of a short dividend issuance season toward the end of each calendar year, a substantial number of recipients would be receiving dividend payments during every month of the year.

Both the amount of hold-harmless benefits paid and the administrative burden of providing hold-harmless benefits would be driven upward by a quarterly distribution scheme. No empirical data exists which would allow us to project the number of public assistance recipients who would participate in an optional quarterly PFD issuance program, but PFD program administrators believe that as many as 25% of our clients would elect the quarterly payment option. For purposes of this discussion and our fiscal note, we assume that 25% would choose quarterly payments.

Discussion

Until 1989, the PFD distribution affected the AFDC and SSI programs to a much greater extent than the Food Stamp and Medicaid programs, and most hold-harmless payments were made to AFDC and SSI recipients. In 1989, the Food Stamp program changed the way it regards PFD payments in income determinations, resulting in a substantial increase in Food Stamp hold-harmless payments; this increase would be magnified by adoption of a quarterly payment option. The Medicaid program would likely be the least affected by a PFD installment payment scheme, principally because the PFD payments influence eligibility for Medicaid benefits, but not the amount of benefits provided to an eligible recipient. We would, however, anticipate an increase in Medicaid hold-harmless costs under an optional quarterly payment system.

The cost of hold-harmless benefits is only one aspect of the potential consequences of adopting the changes proposed in SB 203. The administration of public assistance caseloads would become much more complex in the presence of a quarterly PFD payment option. This increased complexity would substantially increase the amount of time needed to process cases, producing a need to increase eligibility determination staff in order to maintain current levels of service.

Under the proposed PFD distribution scheme, it is likely that the Department's existing special agreements with the federal AFDC and SSI agencies, which greatly simplify administration of the current hold-harmless program and protect the State from federal fiscal sanctions related to case processing errors, would no longer be acceptable to the administering agencies. The primary justification for the existence of the agreements with the AFDC and SSI agencies is the short-term, pervasive nature of the current PFD distribution program; indications from our federal contacts are that the existence of an optional installment dividend payment system would cloud this picture, and probably result in termination of such arrangements.

These special agreements allow continuation of normal program benefits to individuals who receive PFD payments. The AFDC agreement operates by applying a formula to the State's claim for federal matching funds, decreasing that claim by the amount that benefits would have been reduced because of PFD receipt. In the case of the SSI program, hold-harmless funds are used to restore overpayments made to SSI recipients who lose eligibility because of PFD receipt.

Although even the current annual PFD distributions create a substantial extra case processing workload during the PFD season, the existence of the special agreements and the presence of efficient operating systems enable the Department to operate a hold-harmless program which is essentially transparent to most AFDC and SSI recipients, and to avoid exposure to potential federal fiscal sanctions for payments to ineligible households. The loss of these agreements would seriously erode the ability of the Division of Public Assistance to deliver benefits to its clients in a timely, accurate manner, and would expose the State to an increased liability for Quality Control payment errors related to the more frequent distribution of dividend payments.

No such special agreement exists for the Food Stamp program because when, in 1989, the federal Department of Agriculture required Alaska to begin to treat PFD payments as income, it refused to consider such an arrangement. The impact of the change in Food Stamp policy on the Division of Public Assistance has been dramatic. In the absence of the agreement, Food Stamp caseworkers must now convert nearly every one of their cases from Food Stamps to a cash, PFD hold-harmless case during the dividend distribution season. Eligibility workers must then convert each case back to Food Stamps in a subsequent month, after the household again becomes eligible for federal benefits. This change produced a need for modifications to the Public Assistance data system which have still not been completed, and a need for seven additional eligibility determination positions in FY91 for management of the additional workload. This workload would be further increased under a quarterly dividend distribution scheme.

Even if the Department were able to negotiate special agreements with all the related federal agencies to cover an optional quarterly distribution of PFD payments, public assistance staff would be faced with a vast amount of additional work, tracking its caseloads for the more frequent dividend payments and taking action to authorize hold-harmless benefits in place of federally matched benefits. In a single assistance household, some members could choose an annual PFD payment, while others elected the quarterly option. The complexities of case processing under such a system would be overwhelming. We would be forced to impose additional reporting responsibilities on our clients to ensure accurate eligibility determinations. When client reporting responsibilities are increased, some eligible people lose benefits because, for one reason or another, they fail to comply with the requirement and their benefits are terminated.

A most serious deterioration of service quality would derive from the diversion of eligibility staff time away from normal service delivery activity, toward tracking dividend payments and processing related case changes. The only way to prevent such deterioration would be to provide additional staff to handle the increased workload.

The Department's information processing requirements, along with the demand for information from the Department of Revenue, would also increase dramatically if SB 203 became law. Currently in place is an interdepartmental data interface which provides adequate information to allow for accurate public assistance eligibility determinations during the annual PFD distribution season. We also produce an annual data match for the Social Security Administration to facilitate hold-harmless benefit processing under the special agreement for the SSI program.

Under the quarterly distribution option, monthly data exchanges would be necessary to maintain payment accuracy in the state-administered programs and to satisfy the information needs of the SSI program. In addition, massive changes to the public assistance Eligibility Information System (EIS) would be needed to implement a revised hold-harmless benefit authorization system. These changes would need to go into place during the same period of time that a major restructuring of the system is taking place in order to implement program revisions and system expansion necessitated by the Family Support Act of 1988. In fact, it would probably be impossible to begin to implement the needed changes in EIS until after completion of the Welfare Reform system changes. Those changes will not be in place until September, 1990.

EIS is already a huge, complicated data system, and it will become larger still when Welfare Reform changes are in place. System performance could be seriously compromised by the introduction of the additional complexity which would come with system changes to process hold-harmless benefits under a quarterly PFD distribution option.

Although SB 203 does not propose any change to the existing provision for hold-harmless benefits, we see a need to include here a discussion of how a quarterly PFD distribution option would affect public assistance programs if it were ever decided to discontinue hold-harmless benefits. Under the current annual payment system, most families lose one month of eligibility for federally-funded benefits. In a typical AFDC case situation, a family which includes one adult and two children currently receives $846 per month; the hold-harmless program replaces their $846 cash benefit once per year, and Medicaid eligibility continues without interruption. Without a hold-harmless program, this family would lose AFDC eligibility for the month of dividend receipt, but would not lose Medicaid eligibility because of the unpredictable nature of the annual payments. The family would in this case, still benefit from the dividend payment, since they would be receiving about $2772 (assuming the PFD is $904) in PFD benefits, while losing only $846 in AFDC payments.

If the family in our example received four quarterly PFD payments of $693, hold-harmless benefits would replace $693 in AFDC payments four times over the course of a year. Without hold-harmless, the AFDC benefit would be reduced by $693 during each of the four months of PFD receipt, thus depriving the family of any net benefit from its PFD payments. This same scenario could hold true for many families, regardless of size, at an annual PFD amount of $924.

Medicaid eligibility would not be lost in this example, but would be threatened in many situations, because PFD payments would become predictable (and therefore countable) in Medicaid eligibility determinations. In situations of unusual medical need, the loss of Medicaid coverage would far exceed the amount of the benefit.

The ability of the Division of Public Assistance to maintain the current low rates of Quality Control error in AFDC, Food Stamps, and Medicaid would be threatened by a move to discontinue hold-harmless coverage. This impact would be amplified if PFD payments were made quarterly, because of the increased number of benefit months and the increased amount of benefit payments which would be affected by PFD payments. Yet another administrative impact would be development of a pattern of caseload churning, with cases closing once per quarter, then requiring submission and processing of a new application to reinstate benefits.

Recommendation

We believe that a quarterly Permanent Fund Dividend payment option, as proposed in SB 203, would increase hold-harmless benefit costs to a substantially higher level, causing a significant decrease in the amount of every Alaskan's dividend payment. The proposed change in the PFD program would bring a concomitant increase in complexity in public assistance program administration, an associated increase in public assistance administrative costs, and a probable decrease in the quality of service to public assistance clients. We recommend against passage of SB 203.

Recommended by: John R. Taber
John R. Taber, Director
Division of Public Assistance

Date: 1/19/90

Approved by: Myra M. Munson
Myra M. Munson, Commissioner
Department of Health &
Social Services

Date: 1/19/90

SB
206

PAIL has
files in
Anchorage

10-22-89
ss

phoneag = agenda 10/31 hearing

phonecomp = compare initiatives
& SB 206

phonmemo = to members
re 10/31 hearing

Petition Initiative

General
Communication
Incorporated

June 5, 1989

The Honorable Stephen A. McAlpine
Lieutenant Governor
Box AA
Juneau, Alaska 99811

Dear Lt. Governor McAlpine:

With this letter we are filing 98 separate "Initiative Sponsor Application[s] and Testaments." Eighty-one of these contain the signature and voter information pertaining to 81 sponsors. The other 17 contain the signatures and voter information pertaining to 80 sponsors. Together with this letter these documents constitute an application for a proposed initiative entitled "An Act Relating to Intrastate Long Distance Telephone Competition."

Pursuant to AS 15.45.030, our initiative committee consists of the following three sponsors:

Ronald A. Duncan
4150 West 82nd Avenue
Anchorage, Alaska 99502

Dan K. Coffey
3231 Knik
Anchorage, Alaska 99518

Stephen G. Frank
1125 Sunset Drive
Fairbanks, Alaska 99709

Pursuant to AS 15.45.090 (2), the Lieutenant Governor is required to prepare an impartial summary of the subject matter of the proposed bill. Attached to this letter is a draft summary which we have prepared for the Lieutenant Governor's consideration.

Also attached to this letter is our proposed bill. Copies of the proposed bill are also attached to each of the sponsor's signature pages as required by AS 15.45.020.

Very truly yours,

Ronald A. Duncan
President

2550 Denali Street • Suite 1000 • Anchorage, Alaska 99503-2781 • 907/265-5600

SUMMARY

The proposed bill would allow competition in in-state long distance telephone service. The bill would accomplish this by allowing new companies to provide long distance telephone service by filing a notice with the Alaska Public Utilities Commission and posting a surety bond to guarantee financial responsibility.

To assist in implementing long distance telephone competition, the proposed bill would require the Alaska Public Utilities Commission to establish a system of access charges. The companies providing in-state long distance telephone service would pay these charges to local telephone companies for each long distance telephone call.

To the extent permitted by the Alaska Constitution, the Alaska Public Utilities Commission would be authorized to establish a fund to provide financial support, where necessary, to ensure the provision of in-state long distance telephone service throughout the State at reasonable rates.

Under the proposed bill, the rates charged by the new companies providing competitive service would not be regulated. For companies presently authorized to provide in-state service, the Alaska Public Utilities Commission would have the power to deregulate the rates charged on those long distance routes where competitive service is available. The bill would also give the Alaska Public Utilities Commission the power to reimpose regulation on the rates charged on any route upon a finding that competitive

service is no longer being offered on that route.

In order to prevent a company from using its profits ~~on~~ from noncompetitive, regulated routes to unfairly reduce the rates charged on competitive, deregulated routes, no company would be permitted to shift its costs between the regulated and unregulated portions of its service.

To further ensure fair opportunity to all companies wishing to provide in-state long distance telephone service, the bill would prohibit restrictions on the resale of telecommunications services so that one company may send its calls over the facilities of another if it wishes to do so.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 998
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M February 21, 1989

SUBJECT: Intrastate competition in telecommunications (Work Order No. 6-0689)

TO: Senator Steve Frank

FROM: Teresa B. Cramer TBC
Legislative Counsel

You have requested a sectional analysis of the above described bill.

As a preliminary matter, note that a sectional analysis or summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1 makes findings concerning telecommunications services in the state.

Sections 2 - 4 exempt utilities and services that are exempt under AS 42.13, enacted by section 5 of the bill, from regulation by the Alaska Public Utilities Commission (APUC) or by municipalities to the extent of the exemption granted under AS 42.13.

Section 5 adds a new chapter concerning regulation of intrastate exchange or interexchange telecommunications service.

Sec. 42.13.010 permits entities that did not hold APUC certificates of public convenience and necessity to provide intrastate telecommunications service on January 1, 1989, and that are not affiliated with a certificated entity, to provide interexchange service without being certificated. The entity must first file a notice concerning services and rates. Entities providing service under this section are not subject to regulation by the APUC. The definition section, sec. 42.13.300, defines "interexchange service" and "intrastate service."

Sec. 42.13.020 requires in subsection (a) that the APUC deregulate telecommunications services if an interested party requests and the requirements of the section are met. The commission may also act on its own motion to deregulate a service. The section applies to public utilities holding certificates of public convenience and necessity to provide intrastate telecommunications service. The commission must provide notice of the application and an opportunity for a hearing. The service is deregulated if the commission finds that the entity or affiliate of the entity does not have market power in that telecommunications service and is not affiliated with an entity having market power in that telecommunications service.

Under the rest of the section, the exemption applies only to the services exempted under (a). The APUC is directed to determine the fully distributed cost of the exempted and regulated services provided by the entity. The rates for regulated services may not include recovery of any of the costs of the exempted service. Rates for regulated services may increase only if the direct costs of the regulated service increase.

Sec. 42.13.030 sets out the notice that entities must file before providing an exempted service. The contents include the entity's name, address, a description of services and prices, and proof of the purchase of a bond required by the chapter. The notice must be kept up to date.

Sec. 42.13.040 permits the APUC to require that an entity that has been exempted under the chapter begin complying with regulatory requirements of AS 42.05 if the APUC finds that the entity has gained market power in a telecommunications market. The reimposition of regulation applies only to the extent a service or entity has market power.

Sec. 42.13.050 directs the APUC to establish a system for access charges to be paid by interexchange service providers to local exchange carriers. The local exchange carriers set the amounts by a tariff filing.

Sec. 42.13.060 directs the APUC to establish an intrastate telecommunications service universal service fund. The local exchange carriers maintain the fund. The purpose of the fund is to provide financial support as necessary to ensure that interexchange service is provided throughout the state at reasonable rates. The fund is to be used to reduce exchange access charges and surcharges. The APUC may approve a tariff that reduces the charges and surcharges to zero if necessary to accomplish the purpose of the fund. The commission may change the method by which money from the fund is distributed if the change is necessary to achieve the purposes of the section. However, under section 8 of the bill, the commission must wait for two years after the fund is established before it may make changes.

Sec. 42.13.070 permits the APUC to authorize the local exchange carriers to form an association to help administer the access charges and the universal service surcharges.

Sec. 42.13.080 requires entities providing or proposing to provide interexchange service to post a surety bond payable to the local exchange carrier association or the carriers themselves. The bond is to be in an amount equal to 90 days estimated intrastate exchange access charges and surcharges.

Sec. 42.13.090 prohibits an entity from putting limitations on the resale of a telecommunications service. If a service is resold, the reseller receives credit for applicable exchange access charges if the credit is necessary to prevent double payment of the charges.

Sec. 42.13.100 prohibits entities from discriminating among customers or entities in providing access, service, or interconnection and requires entities to permit connection or the furnishing of a service when the public convenience and necessity require and the result will not cause substantial injury or a substantial detriment to the service.

Sec. 42.13.200 directs the APUC to refer to decisions of courts interpreting state and federal laws concerning monopolies and restraints of trade when determining whether an entity has market power under the chapter.

Sec. 42.13.300 defines terms used in the chapter.

Section 6 changes the current exemption from regulation under the state antitrust laws. The exemption for all public utilities holding certificates of public convenience and necessity is changed to remove utilities providing interexchange telecommunications service. The antitrust laws will apply to the provision of interexchange telecommunications service.

Section 7 extends the termination date of the Alaska Public Utilities Commission to 1993.

Section 8 limits the APUC's power to change the method for distribution of the universal service fund for two years after the establishment of the fund.

Section 9 directs the APUC to adopt the regulations to establish the exchange access charges and the universal service fund on or before January 1, 1990.

Section 10 sets an effective date of January 1, 1990, for the sections creating the exemptions from APUC regulation and reimposition of regulation, requiring bonding, and prohibiting restrictions on resale of services and for the limitation of the exemption from the antitrust laws.

Section 11 makes the exchange carrier association section and the extension of the termination date of the APUC take effect immediately.

The remaining parts of the bill do not have a special effective date.

If I may be of further assistance, please advise.

TC:lmb
L7/021

LEGISLATIVE TELECONFERENCE NETWORK

SIGN-IN SHEET p.1

SPONSOR: Senate State Affairs

SUBJECT: SB 206 - Intrastate Phone Competition

START/END TIME: 1:30 pm - 4:00pm DATE: 10-31-89

PLEASE PRINT

	NAME/REPRESENTING	ADDRESS	PHONE #	TESTIFY	OBSERVE	BILL #
1	K. Niwa REA	6912 Fairweather Dr Anch 99518	349-5001		✓	
2	John McGill Alascom	210 E Bluff Rd ANC	264-7796		✓	
3	Barbara Gruenstein / Alascom	210 E. Bluff Rd Anch	264-7782		✓	
4	JULIAN L MASON Alascom	1130 West 6th	276-4331	✓		
5	A.W. Saupe / Alascom	1130 W. 6th Anc	276 4331		✓	
6	Hisae Ubl / GCI	2550 Denali St	265-5615		✓	
7	Dana Tindall	2550 Denali	265-5600		✓	
8	Rick Solie - Sen. Steve Frank - Fairbanks		452-3421		✓	
9	STEVE FRANK	1125 SUNSET FBKS AK	452-3421	✓		
10	CHARLES CARPENTER	410 L ST SUITE 1600	276-6222		✓	
11	RON DUNCAN	2550 DENALI STE 1000	2655600	✓		
12	Deborah Williams	510 L St #500 99501	276-2713		✓	
13	W D PYRON	4300 B St Suite 300	563-2199		✓	
14	D DuBois	" " "	" "		✓	
15	Kathleen Whiteaker	APUC 420 L St. 99501	276-6222		✓	
16	Tal Moninski	" " "	"		"	
17	Susan Knowles	✓ ✓	✓	✓		
18	Carolyn Guess	✓ ✓			✓	

LEGISLATIVE TELECONFERENCE NETWORK

THE SEAL OF THE STATE OF ALASKA

SIGN-IN SHEET p.2

SPONSOR: Sen St Aff

SUBJECT: SB 206 - phones

START/END TIME: 130 - 400 DATE: 10-31-89

PLEASE PRINT

	NAME/REPRESENTING	ADDRESS	PHONE #	TESTIFY	OBSERVE	BILL #
1	Peter Sokolov	420 L St. 99501			✓	
2	Ashley Reed	510 L St #210 Anc 99501			✓	
3	J. Jackson	420 L St 99501			✓	
4	LORRAINE PLAGA	420 L ST 99501			✓	
5	G Parker	201 E. 56th 99518			✓	
6	Bernadette B Murray	3940 Arctic Blvd 99505			✓	
7	Elizabeth Nicholson	1034 W 4th, Suite 200 99501			✓	
8	Tuckerman Babcock	Rep. Loren Leman			X	
9						
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15						
16						
17						
18						

10/31/89 Hearing
~~PHONES~~
1:00-4:00 pm

~~Contacts~~

GCI: ~~Dana~~ Dana Tindell / Ron Duncan 265-5611 2550 Denali, #1000 Anch 99503
yes Sen Frank (Rick Soli) 452-3421
586-3340
~~Reed~~ Stoops, Jim Clark, Ed Dankworth

279-5350 / FAX 258-3527 586-1776
Alascom: ~~Ashley~~ Reed, Jerry Reinwand, Alex Miller, ~~Km~~ Hutchinson
~~ok~~ John McGill / Barbara Greenstein 264-7796

not prepared to comment on initiatives
APUC: ~~ok~~ Susan Knowles / Kathy Whitaker 276-6222

ATA: Gordon Parker 563-4000
~~Steve~~ Steve Hamlen, Unicom 561-1674

Other: Dave K, Ken Anderson - Lt. Gov. 3520
yes AG - Jim Baldwin 3600
Joan Kassen, OMB 3568
~~AK Consumer Advocacy P.~~

Analysis North Alan Mitchell
Alaska's Utility Consumer Advocate
911 W. 8th Ave., Suite 204
Anchorage, 99501

Teleconference Sites: Anch Soldotna
Fby
Jnu

Sandra 10/89

Phones - notes

Alascom petition not certified by Lt Gov yet. at AG - available in 2 wks - ?
Both petitions allow competition, but in different way.
If voters approve, automatically (90 days?) becomes law.
SO PRESSURE IS ON LEG. TO DO SOMETHING THIS 1990 SESSION IF DON'T LIKE EITHER ~~[illegible]~~ INITIATIVE.

Confusion: what if both initiatives pass?
what is "substantially similar"? If pass leg. similar to 1 initiative, & the other initiative is approved by the voters - what happens?
if voters approve initiative, leg. can't change for 2 yrs.

Alascom (etc.) Teamsters + Interested Citizens has sued over components of GCI initiative as unconstitutional. Knowles thinks likely GCI will sue over Alascom initiative once it's ~~[illegible]~~ certified.
initiative can't appropriate $ (universal service fund)

Baldwin - Supreme Ct. says AG can revise initiative - don't know if will. Concern = the repealer in the Alascom initiative.

Joel Rothberg
DATE?

Long-distance telephone service in Alaska: issues and choices

A consumer guide from the Alaska Consumer Advocacy Program

This consumer guide was prepared with the support of the State of Alaska, Department of Commerce and Economic Development. However, any opinions, findings, conclusions or recommendations expressed herein are those of the authors and do not necessarily reflect the views of the State of Alaska.

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At present, Alascom is the sole provider of intrastate long-distance service, although GCI has applied to the APUC for a certificate to provide service and proposed rules to govern competition. GCI and other advocates of competition contend that it offers the same benefits to telephone customers as are afforded other consumers. They state that competitive offering of interstate and international service has already lowered rates for Alaskans and brought improved technology and service. They also argue that no utility company answerable to shareholders is likely to lower rates unless it is under competitive pressure or is legally required to do so.

Those who have doubts about competition in long-distance service point to the high cost and complexity of telephone systems, arising from the interconnectedness of those systems and their high degree of dependence upon sophisticated technology as grounds for caution.

These people insist that competition among telephone companies cannot be compared to competition between supermarkets or automobile companies. They cite the confusion, difficulties with service, and higher local telephone bills consumers have experienced since the break-up of AT&T as examples of what can go wrong when telephone companies are allowed to compete.

These problems are compounded, it has been argued, in a state such as Alaska, in which a large percentage of the population is concentrated in a few urban areas and the rest are scattered throughout the state in small villages. The inhabitants of these villages, many of whom have small incomes derived mainly from seasonal work, are especially dependent upon affordable in-state long-distance communication.

Alascom and others argue that the company is able to offer affordable service around the state only through statewide averaging of its rates. They say that Alascom averages rates by using revenues generated above cost on some of its routes to maintain reasonably priced rates on routes in other areas of the state, particularly in rural Alaska.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

Joel Rothberg
DATE?

Long-distance telephone service in Alaska: issues and choices

A consumer guide from the Alaska Consumer Advocacy Program

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I. Introduction

Long-distance telephone service in Alaska is at a crossroads. As a result of a decision by the Federal Communications Commission, Alaskans may choose between competing long-distance carriers for interstate and international service.

Before the Alaska Public Utilities Commission (APUC) at this time is the issue of whether telephone companies should be allowed to compete in offering intrastate long-distance service. The issue is not an easy one to decide, as it involves complicated systems, and its resolution will affect both long-distance and local telephone consumers and both urban and rural Alaskans.

Connected to the question of competition in Alaska, and at the same time separate from it, are issues of how long-distance companies serving Alaska should be regulated, whether they should be regulated at all, how local telephone companies should be compensated by long-distance carriers for connections, and how the costs of local and long-distance service should be apportioned among telephone companies and their customers. One purpose of this booklet is to help Alaskan telephone consumers understand these issues. It is not a purpose of this booklet to advance positions adopted by ACAP on these issues.

The booklet also contains some suggestions about how to choose among options in long-distance service. In preparing this portion of the booklet, the ACAP staff discussed the various long-distance calling plans with representatives of Alascom and GCI and consulted information provided in local telephone directories. Consumers are encouraged to make use of these sources. Consumers who need help with telephone service may also contact the APUC staff. The APUC's address and telephone number is:

Alaska Public Utilities
Commission
420 L Street, Suite 100
Anchorage, Alaska 99501
276-6222

II. Intrastate competition in long-distance telephone service: should we have it?

Consumers accustomed to the free market system that operates elsewhere in the American economy may find this an odd question. After all, have not most of us been told in school, through the news media, and from political leaders, family, and friends, that the American economy is superior to those of other countries because it offers freedom of choice? Doesn't competition in goods and services always provide the best products and services at the lowest possible price? Why should this not also be true of telephone service?

At present, Alascom is the sole provider of intrastate long-distance service, although GCI has applied to the APUC for a certificate to provide service and proposed rules to govern competition. GCI and other advocates of competition contend that it offers the same benefits to telephone customers as are afforded other consumers. They state that competitive offering of interstate and international service has already lowered rates for Alaskans and brought improved technology and service. They also argue that no utility company answerable to shareholders is likely to lower rates unless it is under competitive pressure or is legally required to do so.

Those who have doubts about competition in long-distance service point to the high cost and complexity of telephone systems, arising from the interconnectedness of those systems and their high degree of dependence upon sophisticated technology as grounds for caution.

These people insist that competition among telephone companies cannot be compared to competition between supermarkets or automobile companies. They cite the confusion, difficulties with service, and higher local telephone bills consumers have experienced since the break-up of AT&T as examples of what can go wrong when telephone companies are allowed to compete.

These problems are compounded, it has been argued, in a state such as Alaska, in which a large percentage of the population is concentrated in a few urban areas and the rest are scattered throughout the state in small villages. The inhabitants of these villages, many of whom have small incomes derived mainly from seasonal work, are especially dependent upon affordable in-state long-distance communication.

Alascom and others argue that the company is able to offer affordable service around the state only through statewide averaging of its rates. They say that Alascom averages rates by using revenues generated above cost on some of its routes to maintain reasonably priced rates on routes in other areas of the state, particularly in rural Alaska.

Alascom notes that at present potential competitors are interested only in providing service in areas around Anchorage, Fairbanks, and Juneau, and that if it has to offer competitive rates in just those areas, it will no longer be able to average rates across the state and to provide financial support to rural customers to keep their rates down. The rates of rural customers, Alascom says, will rise dramatically, perhaps to unaffordable levels.

GCI and supporters of competition counter these arguments by insisting that available data shows the rural portion of Alascom's system to be largely self-sustaining. They say that revenues generated above cost have been used mainly to support below-cost rates for short distances in the Anchorage area and probably the Fairbanks and Juneau areas, as well. This support mechanism, they note, will begin to disappear if a new rate design proposed by Alascom and now being considered by the APUC is approved. That rate design will raise rates for short-distance routes and lower rates on the longer-distance routes.

Has competition been beneficial to Alaska? GCI does offer competitive rates, and even Alascom admits that GCI has made substantial gains in customer growth and market share since it began operations in 1982. In addition, both Alascom and GCI have reduced rates markedly in recent years. In weighing these events, consumers should examine closely implications in company advertisements that every rate reduction by Alascom has been the result of competitive pressure from GCI or that Alascom offered rate reductions just because it decided customers should have them.

GCI insists that competition has been a factor in Alascom rate reductions. Alascom responds that it has reduced rates mainly in response to FCC orders. In the 1970's the FCC ordered interstate rate integration for Alaska and three other off-shore jurisdictions. Under rate integration long distance telephone companies were required to reduce their interstate rates in stages to levels comparable to those in the continental United States.

GCI in response points to a 1980 agreement between Alascom and AT&T, approved by the FCC, that delayed the introduction of the final stage of rate integration until December, 1986. (A large part of the interstate revenues received by Alascom through this deferral of the final reduction was channelled into a transitional supplement fund, the purpose of which was to support intrastate rates and operations.) GCI argues that Alascom did not decide to move into the final stage of rate integration until it observed GCI making gains in market share.

Another change ordered by the FCC brought interstate long-distance rate relief at the expense of local telephone consumers. This change is the federal end-user access charge, now set at $3.60 a month, which every local telephone customer now pays. The federal access charge recovers system costs previously paid by long-distance customers.

Other events besides competition and FCC orders have played their part in reducing rates. In 1987, long-distance telephone companies and other utilities reduced their rates in order to comply with the legal requirement that they account for a reduction in income tax expense resulting from the federal 1986 Tax Reform Act. Alascom reduced its intrastate rates additionally in that year by recovering through operator assistance charges costs it had previously recovered through basic rates.

Would intrastate competition work in Alaska? To answer this question, the Alaska Public Utilities Commission is exploring what the costs are of providing local and long-distance telephone service. The APUC is also trying to decide who among various classes and groups of customers is paying these costs at present and who should be paying them. With answers to these questions, the APUC will decide whether it is possible to have competition which offers benefits to Alaskans without imposing unreasonable costs on any class or group of customers.

As suggested above, part of the debate is about which customers within Alascom's system are paying the costs of the system. Another part of the debate, discussed further in the next section, is about how the costs of telephone service should be apportioned between long-distance and local customers.

III. What costs of the telephone system should local subscribers pay?

Alascom has asked the APUC to shift 40 percent of certain costs it now pays to local telephone companies. If the cost shift were passed on in its entirety to local telephone consumers, it could mean an additional $4 monthly charge on each local bill in the state. Alascom has suggested that the impact of the cost shift could be eased if local companies absorbed it in their profit margins or distributed more or less of it to different customer classes. The new charge would be called a subscriber line charge.

The rationale advanced for the subscriber line charge is the same as was offered for the monthly federal access charge. The FCC approved the federal access charge when long-distance companies offering interstate service said that they were paying costs of the physical plant of the local telephone exchange (usually designated as "non-traffic sensitive", or NTS, costs) that should properly be paid by local users.

The carriers said these NTS costs would have to be paid even if there were no long-distance service. In addition, the carriers argued that once they were relieved of these costs, they could reduce their rates, a desired result in itself and one which would help them to meet competition in the form of customer "bypass" to alternative methods of long-distance communication. If they could not meet this bypass threat, the carriers declared, they would lose major customers, and those who remained on their systems, chiefly residential and other smaller users, would pay higher rates to make up for the loss.

In defending its cost shift proposal, Alascom says if it did not have to pay the costs it wants to transfer to local companies, it could make an overall reduction in rates of 20 percent. It says it, too, is facing bypass threats which could lead to higher rates for its customers. Alascom also argues that without the shift, if it had to meet an intrastate competitor offering basic service, it and its customers would be unfairly burdened by extra costs in rural areas that its competitors did not want to serve.

Opponents of the cost shift say that it is fair for Alascom to pay the costs it wants to shed, because if there were no local telephone system, Alascom would not be able to connect its long-distance calls. They say Alascom has not shown that reduced rates would keep on its system the customers it fears it will lose to bypass. Alascom, they insist, has not shown who among its customers would benefit most from rate reductions. The concern is that large-volume customers, including government agencies and businesses, would reap the biggest gain. At the same time, residential and other small users, who have no options besides basic telephone service, would suffer a net loss from the shift.

An issue currently before the APUC which poses many of the same questions as those raised by the Alascom cost shift proposal is that of separation of costs between local and long-distance companies. The FCC has rules which control which costs of the telephone system shall be paid by local telephone subscribers and which by interstate long-distance customers. In recent years, FCC rules have transferred an increasing share of system costs from interstate carriers to local exchanges. The basis for this transfer has been largely the same as that behind the federal access charge, namely that a claimed subsidy of local users by long-distance customers must be reduced.

The impact of this transfer on the costs borne by local users in rate increases has been substantial (up to $7 million for customers of Anchorage Telephone Utility), and to lessen the impact on high-cost local exchanges, including those in Alaska, the FCC has ordered the creation of universal service funds, which channel subsidy monies from lower-cost to high-cost exchanges.

The APUC recently adopted rules patterned after the FCC regulations which control apportioning of costs between local and intrastate telephone companies. The rules made no dramatic change in the respective cost burdens of local and intrastate companies or the eligibility of local companies for federal subsidy funds, and no action was taken to create a statewide universal service fund.

Whether any significant change will be made in the future will undoubtedly depend in part on whether additional costs will be shifted from interstate to local service and whether the APUC adopts the cost shift proposal of Alascom. As noted above, decisions on long-distance rate design, separations and cost shifts help define the cost of delivering long-distance service. When that cost has been adequately defined, a decision will be made on whether the service can be competitively offered at rates that will benefit consumers.

IV. Rate of return v. price-cap regulation: which should we have?

Another important issue for long-distance consumers, particularly as it relates to the question of competition, is whether long-distance companies should be regulated by the rate of return method or under a price-cap system.

Rate of return regulation, the method traditionally used for long-distance companies, involves setting rates which will give the company a reasonable rate of return, or profit margin. This method entails a close examination of company expenses to determine whether they are reasonable and estimating a risk factor for the company which should be reflected in the return paid to investors. Making these decisions can be a long, expensive process, requiring the company to hire experts to support its estimates. In addition, deciding what a reasonable profit margin for a regulated utility should be is universally acknowledged to be a somewhat subjective judgment.

An alternative to rate of return regulation recently approved by the FCC for AT&T is price-cap regulation. The price-cap system establishes ceilings for rates charged by AT&T and permits the company to charge customers up to those limits. The ceilings can be adjusted upward to allow for increases in operational expense, upward or downward for changes in expenses beyond company control, such as taxes, and downward by productivity (2.5 percent) and consumer benefit (.5 percent) factors. Alascom recently proposed that the FCC approve a price-cap system for interstate companies operating in Alaska.

Under price-capping, there is no intensive FCC examination of a company's expenses and rate of return as long as the company stays within the price ceilings. The proponents of the system say it will save the company and its customers unnecessary regulatory expense. They argue that the customers can depend upon competition to keep prices down to their lowest reasonable levels. They say the company bears the risk if the costs of doing business exceed the price caps.

Those who question the wisdom of ending rate-of-return regulation say that the greater risk for consumers is that they will lose the assurance that companies will be required to pass through in rates the full savings actually achieved by cost reductions and increased productivity. They argue that consumers have benefited from the traditional method. Between 1934 and the breakup of AT&T the real price of telephone service, allowing for inflation, has fallen 64 percent. They observe that AT&T has not had difficulty attracting investment capital, even with an authorized rate of return which over the past three decades was between one and two percentage points below that of the Standard & Poor's 400 average.

Opponents of price-capping argue further that competition in interstate telephone service nationally, with a small number of providers, has produced only relatively small differences in rates among companies.

This kind of competition, they say, cannot be relied upon to ensure protection of consumer interests. They also point to an element of the Alascom proposal which would allow complete recovery of major new Alascom investments approved by the FCC. They suggest this provision could be used to recover hundreds of millions of dollars in costs associated with putting in place planned investments which include a new satellite and an underwater trans-Pacific cable.

V. What can consumers do?

Consumers can get involved in these issues by writing to the APUC to let it know what they think the Commission should do about the costs of long-distance and local service and whether competition in intrastate service should be allowed. The Commission files on these questions are open to public inspection and are useful sources of information. Consumers may ask for public hearings on these issues, a request to which the APUC has been responsive in the past.

The state legislature last session became involved in the question of intrastate competition, and bills on the issue are still pending for further consideration. SB 242 would create a legislative presumption against competitive entry in telecommunications service unless the APUC first found that the existing utility was not providing adequate service and was unlikely to improve to a satisfactory level within a reasonable period of time. SB 206 would require the APUC to allow intrastate competition, as would similar legislation introduced in the House of Representatives. Consumers may want to obtain copies of these bills from legislative information offices and contact their legislators about them.

VI. Rates and Discounts

Rates in this booklet reflect two 1989 rate changes for each of the interstate long distance companies. These revisions occurred subsequent to the issuance of the Anchorage Telephone Utility directory issued in May 1989. Long distance rates change over time, so for the particular rates in effect at the time of calling, ACAP recommends that customers contact company marketing representatives or operators. For GCI dial 264-5400; for Alascom dial 0 or 264-7391.

Telephone Company Rate Comparisons for Direct Long Distance Dialing

From Anchorage, AK Area to	Charge 1st Minute		5 Minute Call	
	Alascom	GCI	Alascom	GCI
Seattle, WA	$.26	.25	1.26	1.25
Los Angeles, CA	$.26	.25	1.26	1.25
Denver, CO	$.26	.25	1.26	1.25
Minneapolis, MN	$.26	.25	1.26	1.25
Dallas, TX	$.31	.30	1.51	1.50
New York, NY	$.31	.30	1.51	1.50
Honolulu, HI	$.66	.64	3.26	3.20
Vancouver, BC	$1.58	1.42	7.50	6.74
Calgary, AL	$1.58	1.42	7.50	6.74
Toronto, ON	$1.95	1.75	9.35	8.39
Mexico City, Mexico	$2.25	1.95	11.25	9.75
Toyko, Japan	$3.75	3.65	18.75	15.65
Seoul, Korea	$3.75	3.65	18.75	15.65
London, United Kingdom	$3.00	2.40	15.00	12.00
Sydney, Australia	$3.50	3.40	17.50	14.60

The table above offers rate comparisons for Alascom and GCI as of June 1, 1989.

The simplest way to save money while calling long distance is to call during the time of day or week when the rates are the lowest. Diagrams found in the peach-colored pages in the front of local telephone directories show how rates are structured. In every time zone, the prime time for using interstate long distance telephone services coincides with the business day. During commercial hours beginning at 8:00 AM and ending at 4:59 PM from Monday through Friday, full day rates apply. Once the workday ends, long distance telephone users may enjoy an evening rate discount of 33% from 5:00 PM to 10:59 PM on Monday through Friday and for part of late Sunday afternoon. The night and weekend rate discount of 48% is available from 11:00 PM to 7:59 AM on Monday to Friday, all day Saturday, and most of Sunday.

For an Alaskan long distance telephone user, placing and concluding calls to the Lower 48 before 7:59 AM in the morning saves 48% from the full day rate everyday of the week. This means that many calls to outside businesses may be placed at reduced night rates from Alaska. Calling long distance all day Saturday and on Sunday before 5:00 PM also saves 48% off of full day rates; many callers do not realize that after this time on Sunday the rate goes up to the evening rate, or 33% off of full day rates.

Alaskans who are frequent long distance callers may be able to save a substantial amount of money by using special package discount plans. Most of these plans sell discounted blocks of time at off-peak hours with additional bargain time blocks available at even better rates. GCI and Alascom both offer package discount plans for long distance telephone calls that are made each month. As of June 1, 1989 the discount plans of the two companies compare as shown on page 12.

One important part of economical telephone use is knowledge of the rate structures of telephone companies. An equally important aspect is the customer's knowledge of his or her calling patterns. Choosing the least expensive form of service requires the customer to know the times of the day and the days of the week when he or she makes the most calls, the amount of time in an average call, the total time spent per month in making calls, and the places usually called.

The customer should calculate whether, given his or her calling plan, he or she will actually save money under the plan selected. Not making this calculation can mean that the customer may end up paying for more service than he or she needs.

In addition to offering rates for telephone services and discount plans for callers, both Alaskan interstate telephone companies offer a wide variety of services for the convenience of long distance telephone users. The table on page 13 shows the special services each company offered as of June 1, 1989.

Telephone Services Offered to Long Distance Subscribers as of June 1, 1989

Service	Alascom	GCI
Direct Dialing	■	■
Person-to-Person	■	
Billing Balance from Customer Representative	■	■
Special Discounts for Hearing and Speech Impaired Alaskans	■	■
Instant Credit Allowance for a Bad Connection (1 minute)	■	■
Instant Credit Allowance for a Bad Connection (3 minutes)	■	■
Interstate Credit Card	■	■
Interstate 800-Toll Free Calls	■	■
International Calls	■	■
International 800-Toll Free Calls	■	■
Collect Call Services	■	
3rd Party Billing	■	
Conference Calling	■	
Emergency Assistance	■	
Marine Radio	■	
Directory Assistance for Interstate and International Calls	■	
Alaska Switched Data Network	■	
Billing via Local Telephone Exchange (except where optional calling plan chosen)	■	

ALASKA PUBLIC UTILITIES COMMISSION

Comments on SB 206

October 31, 1989

In March of this year, the Commission submitted its initial comments on SB 206. At that time the Commission stated that it needed to address a number of interrelated issues affecting the operation of the telecommunications industry in Alaska before deciding the intrastate toll competition question. The issues and work plan for accomplishing this comprehensive restructuring of the industry were also described in detail.

The purpose of today's comments is to summarize the actions which have been taken by the Commission since last March and which are scheduled for the immediate future.

There are four major issues which logically precede the competition question: cost separations, access charges, subscriber line charges, and the Alascom rate design. Following is a brief description of the scope of each issue, the status of its resolution, and its relationship to a decision on intrastate toll competition.

(1) Cost Separations:

(a) The Issue: Each local telephone company provides three types of service-- local, state toll, and interstate toll. The toll services are provided in conjunction with an interexchange company, such as Alascom or GCI. Pricing of toll and local services requires that the local telephone companies divide or separate their costs between these three services. The Federal

Communications Commission (FCC) has already decided what costs are interstate. State commissions have been left with the task of determining how the remaining costs will be divided between state toll and local services.

(b) Status: In 1988 the Commission determined how the costs under the state's jurisdiction would be separated between local and state toll services with one significant exception. The Commission reserved a final decision on assignment of non-traffic sensitive (NTS) costs pending an evaluation of the impact of other accounting and cost separations changes on local telephone companies. These costs are about 70 percent of the local telephone companies' state toll costs.

In May and June 1989, statistical data, comments, and reply comments on NTS cost separations were filed with the Commission. A public hearing was held in June and proposed regulations issued in July. Comments and reply comments on the regulations were received in August and September. At public meetings held later in September, the Commission adopted the proposed regulations with minor corrections, and an order confirming that decision will be issued later this week.

(c) Impact on Competition: The cost separations decision defines the largest single cost of providing toll service in Alaska, namely, the cost of access to local telephone subscribers. Both Alascom and any prospective competitor must know this cost in order to do business and price their services. This information is also critical to an assessment of the affordability of state toll services, with and without competition.

(2) Access Charges:

(a) The Issue: The local telephone companies' costs assigned to state toll services are paid by the interexchange companies that use the local systems to complete toll calls. Currently, this payment is made through private settlement agreements between each local telephone company and Alascom. The FCC replaced settlements with a system of tariffed access charges. These charges compensate local telephone companies for the costs of completing interstate toll calls. At issue is whether a similar access charge system should be adopted for paying the local telephone companies for their state toll costs.

(b) Status: Comments on the desirability of adopting the federal access charge system were filed with the Commission in February, March, and April of 1989. The Commission subsequently proposed regulations adopting access charges modeled after the FCC's rules in May. Comments on the proposed regulations were filed in June, and a public hearing, which lasted almost one week, was held in July, 1989. At public meetings in September and October, the Commission decided that settlements should be replaced by access charges and worked out the substantial number of mechanical details of implementing such a system. The order including the 27 page Alaska Intrastate Interexchange Access Charge Manual was issued last week.

(c) Impact on Competition: While there are a number of other good reasons for adopting access charges, it appears to be universally accepted that such a compensation arrangement is essential if state toll competition is allowed. This position is reflected in SB 206 and in GCI's initiative. Thus, the Commission's decision to implement access charges has eliminated a potential structural impediment to state toll competition.

(3) Subscriber Line Charges:

(a) The Issue: Another mechanism for recovering non-traffic sensitive costs which have been assigned to state toll services is to institute what are called subscriber line charges (SLCs). SLCs have been adopted by the FCC to recover some of the interstate toll NTS costs and are currently imposed on all telephone consumers' monthly bills ($3.50 per line for residential and single-line business customers and $6.00 per line for multi-line business customers). The SLCs have the effect of shifting costs from per minute rates for toll service to a flat monthly charge for all customers. It was a logical extension of the Commission's cost separations and access charge inquiries to consider whether SLCs should be adopted. In addition, SLCs were proposed in the Alascom rate design proceeding.

(b) Status: In 1988, the Commission received comments and conducted a public hearing on SLCs. In 1989, in conjunction with proceedings on Alascom's rate design, cost separations, and access charges, the Commission received additional comments on SLCs. At a public meeting in September, the Commission decided that SLCs should not be adopted; the decision will be formalized by order in November.

(c) Impact on Competition: The resolution of this issue further helps to define what costs are associated with state toll service and whether or not those costs will be collected through toll usage rates. The decision also addresses one of Alascom's major rate design proposals.

(4) Alascom Rate Design:

(a) The Issue: After computing the total revenues that a utility is allowed to earn, it is necessary to determine what rates it will charge for each type of service in order to collect those revenues. This is the focus of Alascom's rate design proceeding. The decision involves consideration of not only the cost of state toll services but also non-cost factors such as the value and availability of service to consumers, historical rates, and competitive alternatives.

(b) Status: In February of 1989, the Commission had two weeks of public hearings on Alascom's rate design. A number of the issues in that case were related to the other telecommunications issues described above, and, with their resolution, a rate design decision is now anticipated in November.

(c) Impact on Competition: The rate design proceeding provides information on the cost of providing toll services in Alaska and the interrelationship between Alascom's rate design and competition.

With work on these four issues substantially concluded, it is now possible for the Commission to direct its attention to the state toll competition question. The Commission currently plans to convene a special public meeting on this question and the regulations proposed by GCI for implementing competition on Monday, November 27, at 1:30 p.m. It is the Commission's objective to issue a decision after that meeting which clearly articulates the Commission's policy position and any procedural plan necessary to implement that position.

INTRA-STATE LONG DISTANCE TELEPHONE COMPETITION

This bill amends the law relating to long distance phone competition within Alaska. If a company has not offered in-state service before 1990, it must get approval from the Alaska Public Utilities Commission. To be approved, a company must show that the new service benefits the whole state, reduces rates and improves service where there is competition, and does not harm service in other areas. Where there is any competition, companies may set their own rates. This bill would repeal laws enacted by another initiative about in-state phone service if that initiative is approved by the voters.

Regarding the <u>Alascom</u> initiative...

MEMORANDUM

State of Alaska

Department of Law

TO: Steven McAlpine
Lieutenant Governor

Sandi Stout
Director
Division of Elections

DATE: October 23, 1989

FILE NO: 663-90-0130

TEL. NO: 465-3600

SUBJECT: Second initiative petition relating to intrastate telephone competition (90-ALAS)

STATE OF ALASKA
RECEIVED
OCT 2 1989
LIEUTENANT GOVERNOR

FROM: James L. Baldwin
James L. Baldwin
Assistant Attorney General

At your request we reviewed a proposed initiative measure relating to intrastate long distance telephone competition (90-ALAS). This is the second initiative measure purporting to impose competition in the long distance telephone call marketplace. In July of this year, we approved another measure (89-TELE) that purports to require competition between telephone companies offering intrastate long distance telephone service. 1989 Inf. Op. Att'y Gen. (July 27; 663-89-0573). Although the initiative measures relate to the same subject matter, each uses a different approach to accomplish the common goal. For the reasons set out in this memorandum, we determine that the initiative is in the proper form for the purposes of AS 15.45.080. However, there are two legal issues that you should be aware of regarding the validity of the initiative.

At this stage of the initiative process our review is limited to the form and procedural matters set out in AS 15.-45.080, which provides:

> The lieutenant governor shall deny certification upon determining in writing that
>
> (1) the proposed bill to be initiated is not in the required form;
>
> (2) the application is not substantially in the required form; or
>
> (3) there is an insufficient number of qualified sponsors.

The division of elections confirms that the application was subscribed by the required number of qualified sponsors. We have reviewed the application and find that it is substantially in the required form.

An essential part of our review is to determine if the bill to be initiated is in the proper from. The elements of form that an initiative bill must satisfy are set out in AS 15.45.040, which provides:

> The proposed bill shall be in the following form:
>
> (1) the bill shall be confined to one subject;
>
> (2) the subject of the bill shall be expressed in the title;
>
> (3) the enacting clause of the bill shall be: "Be it enacted by the People of the State of Alaska;"
>
> (4) the bill may not include subjects restricted by AS 15.45.010.

We conclude that the bill relates to a single subject, has a proper descriptive title, and a proper enacting clause. The provisions of AS 15.45.010 embody the restrictions placed on the use of the initiative by the Alaska Constitution. Article XI, section 7 of the Alaska Constitution provides:

> The initiative shall not be used to dedicate revenues, make or repeal appropriations, create courts, define the jurisdiction of courts or prescribe their rules, or enact local or special legislation.

In our July memorandum, we opined that initiative #89-TELE, relating to intrastate telephone competition, was a proper subject for the initiative. That conclusion applies equally to the subject matter of this initiative.

However, in the July opinion we failed to consider whether the initiative includes provisions that may relate to another of the prohibited subjects set out in the Alaska Constitution. Because both initiatives purport to set procedures and standards for the Alaska Public Utilities Commission, it could be argued that the effect is to improperly define the jurisdiction of the APUC which at times acts very much like a court.

The APUC is a quasi-judicial agency in the executive branch of state government. At times it acts very much like a court. The APUC has pending before it a proceeding in which the question of allowing competition for intrastate long-distance telephone service is at issue. As explained above, article XI, section 7 of the Alaska Constitution provides that the initiative may not be used to "define the jurisdiction of courts." Enactment of either of the initiatives would materially alter the rules under which the current proceeding is conducted. Nevertheless, for the reasons set out below, we believe that neither initiative will enact law that "define[s] the jurisdiction of courts."

Section 7 expressly uses the word "court". The discussion of this provision in floor debates during the constitutional convention focused on preventing interference with the judicial branch of state government. 4 Proceedings of the Alaska Constitutional Convention 2978-88 (Jan. 24, 1956) (hereinafter Proceedings). A review of other sections of the constitution lends force to the presumption that the framers knew how to make special provision for quasi-judicial agencies when they intended to. See, e.g., Alaska Const. art. 3, secs. 22 and 26. We therefore conclude that the restriction applies only to initiatives affecting the courts of the judicial branch of state government and does not apply to initiatives directed to quasi-judicial agencies of the executive branch.

The bill contains a section that raises another legal question. If enacted, the bill would repeal the provisions of the initiative #89-TELE also relating to the same subject. Depending on when the petitions are filed with the division of elections, both measures could appear on the same ballot. It is also possible that each could receive a majority of the ballots cast on the questions. If they do, does 90-ALAS repeal 89-TELE, so that, although approved by a majority of the voters, 89-TELE is never given effect? We believe the answer to this question is "yes."

The initiative process is established by the Alaska Constitution. The constitution describes the direct law-making power retained by the people as follows:

> Unless clearly inapplicable, the law-making powers assigned to the legislature may be exercised by the people through the initiative, subject to the limitations of Article XI.

Alaska Const. art. XII, sec. 11. The plenary law-making powers of the legislature implied in article II are limited in the article on initiative, referendum, and recall. A provision there expressly provides that "[a]n initiated law ... may not be repealed by the legislature within two years of its effective date." Alaska Const. art. XI, sec. 6. The primary question is whether the limitation on legislative repeal of an initiative applies also to the people. We believe that it does not limit the power of the people to repeal a law enacted by the initiative. This appears to be an instance when a restriction on the law making power of the legislature is "clearly inapplicable" to the exercise of the direct law-making power reserved to the people.

This office has consistently interpreted the article on initiative, referendum, and recall in a manner that permits the initiative to be used to repeal existing law. 1975 Op. Att'y Gen. No. 7 (April 14). In the 1975 formal opinion, we expressly recognized that an initiative may be used to repeal law previously enacted by initiative. We believe that it is not a substantial step to extend this interpretation to the repeal of initiated law that may be approved by the voters on the same ballot.

The purpose of the framers in adopting the two-year ban on repeals was to prevent the legislature from destroying a measure having broad popular support. To preserve the initiative process, it was considered important to limit the legislature's power to interfere with the effect of initiated law. Delegate Smith expressed this view as follows:

> [T]he only value for the initiative and referendum procedure is if there is a clear channel for enactment of legislation by the people. That is if it goes directly from the people bypassing the legislature. If you give the legislature the power to block that channel, then you just as well as have no initiative and referendum at all.

2 Proceedings 1011 (Dec. 17, 1955). The two year period was set with the thought in mind that a succeeding legislature would be able to consider repeal of initiated law. 2 Proceedings 1184, 1185 (Jan. 4, 1956). Under the committee proposal finally adopted by the convention, the legislature retains the power to amend and thereby ameliorate the effects of an initiated law, but it cannot destroy it during the two-year period of the prohibition.

During the floor debates of the convention, Delegate Taylor of the committee on direct legislation made the following statement:

> [T]here would be nothing to prevent the people, if they felt that the act that they had initiated was

> wrong, . . . they . . . by the appropriate petition, can repeal it.

2 Proceedings 937 (Dec. 16, 1955), 1187 (Jan 4, 1956), 2950 (January 24, 1956). The foregoing legislative history provides extrinsic evidence in support of an interpretation that the prohibition against repeal applies only to the legislature and not to the people when they directly repeal initiated law. Case law in other jurisdictions is of little help in interpreting our constitutional provisions because the cases were decided based on constitutional or statutory provisions that do not readily compare.

We recognize that arguments can be made that a simultaneous repealer is not appropriate to the initiative process. The sponsors have one year to file their petition. It is not certain whether the sponsors of this initiative will be able to file the petition before the upcoming legislative session so that the measure will appear on the 1990 general election ballot. Claims that the repealer will cause confusion for the voters and may complicate interpretation of the initiated law are abstract questions at this time. As to the matters at hand, the constitutional and statutory provisions pertaining to the use of initiatives must be liberally construed, Boucher v. Engstrom, 528 P.2d 456 (Alaska 1974). Directly stated, even though the repealer may well raise issues that would be ripe for litigation upon enactment of the initiative, we believe that it does not cause the initiative to be in an improper form.

A summary of the initiative measure is attached for your consideration. A copy of the summary was supplied to the initiative committee for review on October 19, 1989. Counsel for sponsors represented that he would confirm his review and approve the wording of the summary. A copy was also provided to sponsors of the competing initiative. The summary is appropriate for placement on the circulating petition.

JLB:nb

89-10-015 LIC

Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling

P.O. Box V
State Capitol
Juneau, Alaska 99811

907-465-3712

Senate State Affairs Committee

Sandra

AGENDA
INTRASTATE PHONE COMPETITION

TC BACKUP

October 31, 1989
1:30 p.m. - 4:00 p.m.
Anchorage LIO, 3111 C Street

I. Introduction
√Senator Steve Frank, Sponsor, SB 206, An Act relating to intrastate competition in telecommunications

II. Status of Alaska Public Utilities Commission Decision on Intrastate Competition
√Susan Knowles, APUC Chairwoman

III. Proposed Ballot Initiatives on Intrastate Competition
√Ron Duncan, President, GCI
√~~John McGill~~, ~~Executive Vice President and General Manager,~~ Alascom attorney
Julian Mason

IV. The Initiative Process
√Jim Baldwin, Department of Law

V. Public Comment (approximately 3:00 p.m. - 4:00 p.m.)
none

THE HEARING WILL BE TELECONFERENCED TO SELECT SITES. PLEASE CONTACT SENATOR PAT POURCHOT (561-7623) IF YOU WOULD LIKE TO TESTIFY.

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* DELIVER TO: LIOCINE   *
*   *
*   *
* ORIGINAL   *
* SENT: 10/31/89 TIME: 13:43   *
* FROM: LTCCKTN   *
* SUBJECT: (S) STA;PL#1;TELECOMM;10-31   *
* PRINT DATE: 10/31/89 TIME: 13:43   *
*   *
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T/C NO: 89-10-015

DATE: OCTOBER 31, 1989
SPONSOR: SENATE STATE AFFAIRS
SUBJECT: SB 206, INTEREXCHANGE TELECOMMUNICATIONS SERVICES
MODERATOR: [redacted]
SITE: [redacted]

PARTICIPANT LIST

****
TESTIFIED

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1.			
2.			
3.			
4.			
5.			

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[redacted]

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1. [redacted]	KETCHIKAN PUBLIC UTILITIES 2930 TONGASS, KETCHIKAN AK 99901	225-1000	
2. [redacted]	[redacted]TCHIKAN PUBLIC UTILITIES 2930 TONGASS, KETCHIKAN AK 99901	225-1000	

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TESTIFIED:
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OBSERVED:
TOTAL:

START TIME: END TIME:

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* DELIVER TO: LIOCINE                                       *
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* ORIGINAL                                                  *
* SENT:           10/31/89  TIME: 13:40                     *
* FROM:           LIOCMAT                                   *
* SUBJECT:        SEN STAFFAIRS;SB260                       *
* PRINT DATE:     10/31/89  TIME: 13:40                     *
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T/C NO:        89-10-015

DATE:          10/31/89
SPONSOR:       SENATE STA TE AFFAIRS
SUBJECT:       INTEREXCHANGE TELECOMMU NICATIONS SERVICES
MODERATOR:     MARY
SITE:          [redacted]

FINAL STATS

*********************************************************************************
TESTIFIED

 NAME/REPRESENTING            ADDRESS                       PHONE      BILL NO.
 1.
 2.
 3.
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[redacted]

 NAME/REPRESENTING            ADDRESS                       PHONE      BILL NO.




 1.  [redacted]TA, POUCH 5050, PALMER 99645, 745-9412/260
 2.  [redacted] POUCH 5050, PALMER 99645,/260
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 5.

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TESTIFIED:    0
UNABLE:       0
OBSERVED:     2
TOTAL:        2


START TIME:   1:30PM            END TIME:
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phil

QUESTIONS

ALASCOM: Given trends in telecommunications technology, isn't intrastate interexchange competition inevitable?

[If no, the answer will probably be something to the effect that Alaska is demographically unique from the rest of the U.S..]

[If yes, it would be interesting to get their opinion of what change in technology or circumstances would be needed to make competition viable.]

ALASCOM, GCI: What would be your reaction if the APUC said "Intrastate competition is permitted subject to the following two conditions:

1. All carriers proposing to provide service must provide service (originating and terminating) to all the communities currently served by Alascom, and

2. Carriers must provide state wide average rates (by mileage band).

APUC: Has the Commission examined the GCI petition thoroughly enough to determine whether it is a workable model (specifically, is the universal service fund mechanism workable)?

What are the administrative costs of the plan?

Do the administrative costs outweigh the public benefits [costs] of competition?

APUC, ALASCOM: The Alascom initiative includes a number of conditions under which the Commission could issue a certificate [to provide competitive long distance service]. One of those conditions includes the promotion of economic efficiency.

Is "economic efficiency" a strictly defined concept, either in the bill or by the Commission?

GCI: Under the GCI initiative, currently certificated companies could be excluded from competition if they have or gain market power.

How does GCI define market power (i.e., percent of market, ability to control price?)?

APUC: In the past, some Commission members have expressed the opinion that they, given their expertise and study of the problem, are in the best position to judge the costs and benefits of competition and the framework that should be adopted if competition is found to be a favorable option. However, it appears that the Commission is rapidly running out of time in which to make a decision before other forces and events take the decision out of your hands.

When can the legislature reasonably expect a decision from the Commission?

Additional Questions

Predatory pricing
APUC: The Alascom initiative differs from the GCI initiative in that Alascom would be free to engage in price competition on any route where the Commission permits other carriers to provide service. Under the GCI initiative Alascom could price compete only on a showing that they lack market power on a particular route.

Under the Alascom initiative would it be possible for Alascom to engage in below cost pricing?

If so, would the commission have the authority to prevent it?

Universal Service Fund
APUC: How do you envision the universal service fund would operate under the GCI initiative? Specifically, how would the supplemental access charge for this fund be calculated?

On which routes would the charge apply?

Who would be the beneficiaries and how would you determine the amount going to each beneficiary?

Note: I told you previously that under the GCI initiative Alascom could not be deregulated. That is incorrect. They would be allowed to compete subject to a showing that they did not have "market power" (a concept that would need some formulation) on the route on which they wanted to compete. Furthermore the costs of providing service on that route could not be charged to Alascom's rate base. The calculation of those costs would have to be based on fully distributed cost principles (which means that they would include part of the common costs of the Alascom network rather than just the incremental or marginal cost of the competitive route).

phones.txt

TO: Pat
FROM: Sandra
DATE: August 1989

INTRASTATE TELEPHONE COMPETITION

Well, I reviewed all the materials available to me and had a long conversation with Kathy Whittaker, APUC -- and I'm not sure I learned anything new. It almost boils down to who you believe! In my mind, the major policy concern is what impact decreased rates on urban/suburban routes (which is an expected outcome of competition) will have on the rates on rural routes.

The rhetoric about Sen. Frank's bill (SB 206) is that it would prevent raising rural rates. However, what the bill says is simply that revenues from noncompetitive routes cannot be used to subsidize competitive routes; it doesn't say that rural rates can't be raised.

What isn't clear is whether current rural rates reflect actual costs. If they don't, which Alascom claims is the case (of their 25,000 routes, they say 19,000 are subsidized), Alascom might seek to raise rural rates to accurately reflect costs. However, because SB 206 requires that APUC continue to regulate noncompetitive routes, I suppose they could deny the rate increase. Alascom argues that prohibiting them from raising rates would be confiscatory and would have a terrible impact on rural service, and that it is inherently unfair to regulate one provider and not the other.

SB 206's solution is establishment of a universal service fund (into which all customers would indirectly pay) to compensate Alascom on noncompeting routes on which costs exceed revenues.

According to Alascom, if rural rates are increased to reflect costs, the increase will be dramatic. They cite Shishmaref's current rate of $.80/min. compared to actual cost of $11.00/min.). GCI claims that the current urban to rural subsidy is minimal, which would suggest that rural rates already reflect actual costs. According to GCI, Anchorage, Fairbanks, and Juneau generate $10.9 million in excess revenue; of this $7.3 million subsidizes suburban rates and $3.6 million subsidizes rural rates.

I have requested clarification on current costs and rates; it may be hard to get a satisfactory answer. Is it possible to determine route specific costs? If it is, is it fair to ask that Alascom make this information public? And if they do make it public, is there any way to verify it? That's why it kind of boils down to who you believe!

Alascom says that without statewide rate averaging (i.e. the subsidy system they currently use) they cannot offer affordable service in the bush. The goal of the telephone network since its inception, both nationally and in Alaska, has been "universal service" -- which requires keeping rates at a level that can be afforded by all. While this concept has been applied in the Lower 48 primarily to local service (long distance rates subsidize local rates to keep local rates low), in rural areas of Alaska where "normal" business and personal contacts require the use of long distance, universal long distance service has been an important goal. If rates are doubled or tripled, universal service is probably no longer an achievable goal.

The other issue raised by rate deaveraging is one of equity. I can see it now -- "telephone cost assistance"....

Continuation of a monopoly would eliminate these concerns over rural rates, but it raises the issue of whether Alascom's current rates are "fair". ACAP looks at the fact that in the early 1980's Alascom "invested" $100 million in its parent company, Pacific Telecom, and in 1987 invested another $100 million. ACAP argues that this "cash in excess of current cash needs" should have gone to reduce rates, and has sued APUC over the investment of $51 million. The court has ruled in favor of APUC; ACAP has appealed to the state Supreme Court.

GCI argues that competition would lead to fair rates, and notes recent decreases in Alascom's interstate rates to make their point. Alascom, however, attributes their recent rate cuts to federal rate integration (which required that rates reflect th nationwide average rate; Alaska's rates are subsidized by AT&T and federal access charges (which established a flat fee for service, essentially reallocating costs formerly included in lo distance charges).

The issue is complicated not only because it's so technical, but because federal deregulation is so recent. The FCC left much of the implementation of competition to the states -- APUC hasn't sorted through it all. The issues APUC is still addressing, and that they insist need to be resolved before the issue of competition can be decided are outlined below. (This approach is in contrast to the FCC, who decided in favor of competition prior to addressing the technical details.) But first a little background:

BACKGROUND

Prior to divestiture of AT&T (which occurred in 1984 as a result of a series of court and FCC decisions), there were one national long distance company (AT&T), 22 local Bell Operating Companies owned by AT&T, and thousands of independent local companies. The local companies installed the plant and equipment, the costs of which (known as "non-traffic sensitive" costs) were shared through a process called "separations" (AT&T negotiated with each local phone company a fee for use of the local company's equipment) and costs were recovered through a system of "settlements and division of revenues" (revenues were essentially shared among the monopoly members).

After divestiture, there was a need to base rates on economic costs. A system of "access charges", under which long distance companies pay local companies established fees for use of their equipment, was devised by the FCC:

1. LATAs (Local Access and Transport Areas) were established. The entire state of Alaska is one LATA; several states have several LATAs. OCC's (Other Common Carriers, like GCI) need state permission to provide intraLATA or interLATA (intrastate) service.

2. 25% of non-traffic sensitive costs must be allocated to interstate rates. The allocation of the remaining 75% is left to the states. Questions that must be answered:
   - Who should pay? (local or intrastate toll)
   - How much should they pay? (base on amount of use, subjective value of service, market price)
   - How will they pay? (flat rate, per minute rate)

<u>APUC has adopted a workplan for addressing these issues, and expects to have them all decided by October 1989. They will then tackle competition itself, and say they will have "something definitive" -- a white paper, proposed regulations, or an absolute decision -- by December 1989.</u>

STATUS OF APUC'S WORK ON COMPETITION

1. Access Charges
This is the charge by the local company to the interexchange carrier (Alascom, GCI) to recover the 25% of non-traffic sensitive cost allocated to interstate service. The current system of settlement agreements (private contract between each local company and Alascom) won't work with competition. FCC requires that there be a non-negotiable published tariff that all interexchange carriers must pay. <u>APUC should issue their final order by November 1, 1989.</u>

2. Cost Separations
This is the allocation of 75% of the non-traffic sensitive costs between local service and intrastate service and whether or not to establish a universal service fund. <u>APUC is soliciting final comments now.</u>

3. Subscriber Line Charges
These charges are used at the federal level to recover a share of the costs allocated to interstate services -- currently all consumers pay a flat fee regardless of use. A similar system could be established for intrastate services, or all intrastate costs could be recovered through a per-minute rate. <u>APUC has closed comment; a decision is imminent.</u>

4. Alascom's Rate Design

Hearings on Alascom's intrastate rates are underway. As part of the proceedings, in June APUC granted a longhaul rate decrease. Alascom proposed that this be offset by a shorthaul rate increase -- MatSu Telephone Association has appealed. An adjudicatory hearing will be held in early fall.

CONCERNS WITH ALLOWING INTRASTATE COMPETITION IN ALASKA

Per Ben Johnson, APUC consultant:

With a small number of competitors, the intrastate market is likely to remain an oligopoly with results that are little better than an unregulated monopoly. For effective competition, probably need 5-6 firms competing, no one firm dominant, and prices controlled by the market rather than by actions of individual firms.

As a general rule, when traffic volumes are very small and few channels are required to carry the traffic, the route will be a natural monopoly. If there are competing firms, none can fully exploit the economies of scale. Though price competition might seem strong while rivals are jockeying for market share, the situation would be highly unstable. Weaker firms, unable to sustain prolonged price wars, would eventually be driven from the market and the market would most likely return to a natural monopoly or an oligopoly with 2-3 firms cooperating to keep prices high so each can cover its costs. It's possible that all carriers would eventually abandon the route.

Similar concerns existed regarding interstate competition in Alaska. At the time of divestiture of AT&T, the FCC looked separately at Alaska. They decided in favor of competition, but are continuing to work out problems with it. The primary issue is that federal law requires Alaska's interstate rates to be nationwide averages, which are much lower than the actual cost of calls from Alaska. In fact, AT&T says it costs $100 million more to serve Alaska than the revenues derived. This represents an indirect subsidy to Alascom.

When GCI entered the interstate market, they complained that they couldn't compete against Alascom's subsidized rates. The FCC granted GCI cost relief in the form of lower rates for its use of AT&T facilities; this represents a subsidy to GCI. The whole issue of "nationwide average rates" in Alaska is pending before the Joint Board of Federal and State Commissioners. A decision may be made as early as this fall; the outcome is not expected to directly affect the intrastate competition issue, but it does raise questions about the effectiveness of competition in Alaska.

THE BALLOT INITIATIVE

GCI is circulating a petition now; need 20,343 signatures by August 1990. They hope to have the signatures in time for presentation to the legislature this session so the issue can make it on the 1990 ballot. Petition sponsors are Ron Duncan, Steve Frank, and Dan Coffey.

The proposal would require that APUC establish access charges, authorize APUC to establish a universal service fund (to the extent allowed by the Constitution - ??), prohibit regulation of rates charged by new companies, authorize APUC to deregulate Alascom on competitive routes, prohibit cost shifting between regulated and unregulated routes, and prohibit restrictions on resale of services so one company may send its calls over the facilities of another if it wishes to.

SB 206

SB 206 contains many of the same provisions as the ballot initiative. Many parties that have reviewed the bill have problems with it. Alascom objects to the definition of "intrastate", the lack of definition of "market power", and the fact that they'd be regulated while their competitors would not be. Both APUC and ACAP object to a bill that gets into the mechanics of competition. They suggest that the Legislature simply adopt a resolution encouraging APUC to resolve the issue as expeditiously as possible.

<u>If you intend to move a bill out of committee, we would need to do some serious work on it.</u>

REVISED

Sen. Pourchot
October 1989

LONG DISTANCE INTRASTATE TELEPHONE COMPETITION
A COMPARISON: TWO BALLOT INITIATIVES ("GCI" AND "ALASCOM") AND SB 206

FINDINGS

GCI and SB 206
Call for "affordable" service.
Call for competition "whenever possible".

Calls on APUC to maintain/supervise universal service fund.

ALASCOM
Calls for "reasonably priced" service.
Calls for competition when in the "overall, long-term economic interest of all citizens of the state".
Calls on APUC to oversee competition.

PROCEDURE FOR INITIATING COMPETITION

GCI and SB 206
Requires notice be filed with APUC.

ALASCOM
Requires certificate of public convenience and necessity be obtained from APUC with finding that would reduce rates, enhance services, promote economic efficiency, and wouldn't jeopardize universal service by raising rates.

REGULATION OF SERVICES

GCI and SB 206
New companies would not be regulated by APUC.
Currently certificated companies could apply for deregulation; APUC would grant if the company lacked market power.
Rates for regulated service could not include recovery of costs for deregulated service.
Rates on regulated service could not be raised unless direct cost of doing business increased.
Regulation would be imposed if a company gained/regained market power.

ALASCOM
On competing routes, no companies would be regulated.

UNIVERSAL SERVICE FUND

GCI and SB 206	ALASCOM
Funded through access charges set by APUC and paid by intrastate long distance providers to local phone companies; to provide financial support to ensure long distance service at reasonable rates. GCI - If constitutional.	Not addressed.

OTHER

GCI and SB 206	ALASCOM
Prohibit restrictions on resale of telecommunications service so one company could send its calls over facilities of another. State antitrust laws would apply to provision of intrastate long distance service by existing providers.	Not addressed.

EFFECTIVE DATE

GCI	ALASCOM
Initiative takes precedence over existing law if there's a conflict.	Same as GCI; plus, approval of initiative automatically repeals the GCI initiative.

Alascom Initiative

A BILL

For an Act entitled: "An Act relating to the creation of competitive long distance telephone services within Alaska."

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

Section 1. AS 42.05 is amended by adding a new article to read:

ARTICLE 11. COMPETITIVE INTRASTATE LONG DISTANCE TELEPHONE SERVICES.

SEC. 42.05.801. FINDINGS AND PURPOSE. It is the policy of the State of Alaska that:

(1) reasonably priced, modern, reliable long distance telephone services should be universally available to citizens throughout Alaska;

(2) long distance telephone services within Alaska should be provided by competitive companies whenever competition is in the overall, long-term economic interest of all the citizens of the State;

(3) the benefits of long distance telephone services competition should be shared by consumers throughout the State;

(4) there should be an orderly transition to competition in long distance telephone services;

(5) there should not be conflicting laws and regulations governing competition in long distance telephone services; and

(6) the Alaska Public Utilities Commission should oversee competition in long distance telephone services to insure that the competition is fair to the consumers.

SEC. 42.05.811. APPLICATION TO PROVIDE COMPETITIVE LONG DISTANCE TELEPHONE SERVICES. A public utility shall not offer any intrastate long distance telephone service after the effective date of this bill unless (1) it obtains a certificate under this section and AS 42.05.821 or (2) it was authorized by the commission under AS 42.05.221-42.05.281 before January 1, 1990 to provide intrastate long distance telephone services. A public utility that was not authorized by the commission before January 1, 1990 to provide intrastate long distance telephone services and that proposes to provide such services must file with the commission the application for a certificate required by AS 42.05.221 - 42.05.231.

SEC. 42.05.821. CONDITIONS OF ISSUANCE OF A CERTIFICATE TO PROVIDE COMPETITIVE LONG DISTANCE TELEPHONE SERVICES. A certificate may not be issued unless the commission makes the findings required by AS 42.05.241 and also finds that issuing the certificate:

(a) will reduce rates and enhance services on the routes the applicant proposes to serve;

(b) will promote economic efficiency;

(c) will not cause rate increases that jeopardize the universal availability of affordable long distance telephone services; and

(d) will be in the long-term best interests of the entire State.

SEC. 42.05.831. RATE AND TARIFF FLEXIBILITY. (a) When a certificate is granted to an applicant in accordance with AS 42.05.811-42.05.821, the applicant, and all other long distance telephone companies that have been granted certificates by the commission, are no longer required to comply with the provisions of AS 42.05.361-42.05.431 on any route on which two or more long distance telephone companies are authorized to provide long distance telephone services. The commission may grant further exemption from regulation under AS 42.05.711(d), provided that all long distance telephone companies that are authorized to compete with each other are granted the same exemption.

(b) A long distance telephone company that is exempted in whole or in part by AS 42.05.831 from complying with AS 42.05.361-42.05.431 may not be regulated by a municipality under AS 29.35.060 and 29.35.070.

(c) If a long distance telephone company that is exempted by AS 42.05.831 from complying with AS 42.05.361 - 42.05.431 ceases to qualify for an exemption, the commission may, after notice and an opportunity to be heard, require that the long distance telephone company comply with AS 42.05.361 - 42.05.431.

SEC. 42.05.841. DISCRIMINATION PROHIBITED. Local exchange telephone companies shall comply with the provisions of AS 42.05.391 when providing access, service, and interconnection to long distance telephone companies.

SEC. 42.05.851. SEVERABILITY. If any provision or portion of any provision of this bill, including but not limited to AS 42.05.861(b), is declared invalid by a court of competent jurisdiction, the invalid provision or portion of a provision shall be considered stricken from the bill and the remainder of the bill shall remain in full force and effect.

SEC. 42.05.861. APPLICATION OF INCONSISTENT LAW. (a) If any provision of this bill conflicts with any provision of an Alaska statute, this bill shall take precedence and the conflicting provision of the statute shall not apply to public utilities providing long distance telephone services.

(b) If the bill entitled "An Act relating to intrastate long distance telephone competition" that amends AS 42 by adding a new Chapter 12 is enacted, that bill is repealed.

Section 2. AS 29.35.070(a) is amended to read:

(a) The assembly acting for the area outside all cities in the borough and the council acting for the area in a city may