

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11224 SENATE LABOR & COMMERCE

Briefing for Legislators:
***Issues Relating to Re-Authorization of the
Regulatory Commission of Alaska***

February 2003



Overview

Local Telephone Service in Alaska

Comparison

Lower 48 LECs and Alaskan LECs

Lower 48 LECs:

<u>Company</u>	<u>Lines</u>
Verizon	61,561,783
SBC Comm.	59,532,000
BellSouth	25,422,000
Qwest Comm.	17,787,000
Sprint	8,200,000
ALLTEL	2,612,325
Citizens	2,481,400
CenturyTel	1,797,643

Lines as of 12/31/01

Alaskan LECs:

<u>Company</u>	<u>Lines</u>
ACS	332,923
MTA	65,335
TelAlaska	19,147
AP&T	13,137
Ketchikan	11,678
Copper Valley	6,819
United Company	6,580
Arctic Slope	5,657

Lines as of 12/31/01

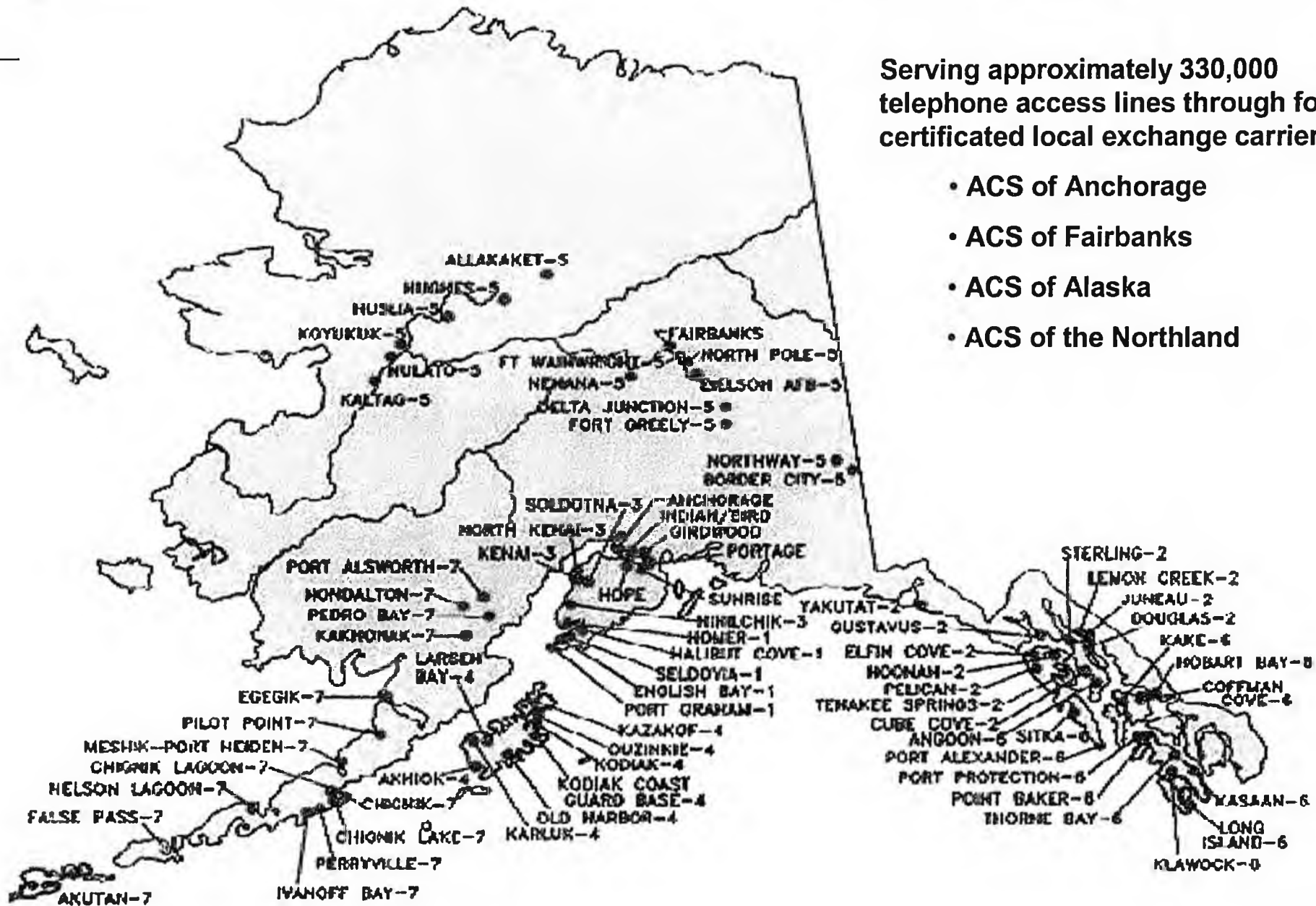
Unique Alaskan Characteristics

- No Regional Bell Operating Company (RBOC) has ever provided local service in Alaska
- Verizon and SBC each serve approximately 1/3 of total lines in the U.S. – together, all of the ***RBOCs serve about 90% of U.S. lines***
- Alaska's largest LEC, ***ACS, serves fewer than 2/1000 of total U.S. lines***
 - Alaskan LECs lack economies of scale, operate in high-cost areas, and face unique service challenges in the state related to distances, geography, climate, etc.

ACS Serves 74 Alaskan Communities

Serving approximately 330,000 telephone access lines through four certificated local exchange carriers:

- ACS of Anchorage
- ACS of Fairbanks
- ACS of Alaska
- ACS of the Northland



State of Alaska Policy Issues

Telecom Policy Study & Assessment

- State of Alaska contracted with BearingPoint Consulting to produce the “Telecommunications Policy Study and Assessment for the State of Alaska.”
- Purpose of study is to identify issues related to promoting cost effective delivery of telecommunications services throughout Alaska.
- Study addressed six policy goals established by the State:
 - Universal service
 - Competitive neutrality and consistent service
 - Appropriate levels of regulation
 - Innovative and cost effective deployment of telecom infrastructure
 - Consistent actions across State government
 - ***Implementation of the Telecom Act in Alaska in a manner that addresses the State’s unique characteristics.***

Study Excerpts

- “Telecommunications Act of 1996 has led regulators to pursue two simultaneous courses of action – requiring ... ILECs to interconnect with competitive carriers *and* simultaneously establishing pricing below actual incurred (embedded) costs for the use of shared network elements....”
- “Instead of simply requiring interconnection (at cost, as opposed to forward-looking, hypothetical pricing), the tactic potentially imposes a financial burden on incumbents, and may inadvertently prop up competitors at the same time.”
- ***“[T]he degree to which it is sustainable, given the use of below-cost UNE pricing as a means of encouraging competition, or at what point regulators cede control to the market are open questions.”***

Darby Report to the Task Force

- On January 30, 2003, Darby Associates submitted its report to Senate Appointees to the Task Force on Operations of the RCA. Report includes the following:
 - Regulators need to fashion rules designed to encourage investment
 - RCA should review adequacy, need and rationale for legacy regulations based on assumption of incumbent market power
 - Time to explore wide range of less regulatory options and find ways to substitute markets for regulation
- ***“Application of old regulatory models based on market conditions that no longer prevail does a gross disservice to the people of Alaska.”***

Economics of Local Telephone

Regulation

- Regulations developed during era when only one telephone company served a community
- Regulators determined everything from prices to quality of service
 - Prices were based on the telephone company's actual costs, plus a reasonable profit to provide an incentive for continued investment
 - Local telephone company designated "carrier of last resort" – building infrastructure to serve everyone, regardless of cost
- Protection for consumers & prevention of unreasonable profits

Revenues

- Revenues to build infrastructure and fund operations come from three primary sources:
- **Retail Rates**. *What the customer pays*
- **Access Charges**. *What long distance companies pay*
- **Universal Service Fund (USF)**. *What federal programs provide*

Affordable, Universal Service

- Residential rates for phone service set below cost to allow residential customers to enjoy low prices for services – no matter where they live
- ***Business rates*** are set above cost to subsidize low ***residential rates***
- ***“Postage stamp rates”*** allow customers (urban and rural) to pay same rate, regardless of actual cost of service
- Federal ***“USF”*** support subsidizes rates in high-cost areas

Retail Rates

	<u>Anchorage</u>	<u>Fairbanks</u>	<u>Juneau</u>	<u>“Northland”</u>
Residential	\$12.05	\$12.50	\$ 9.42	\$16.30
Business	\$33.00	\$29.50	\$28.95	\$34.60

- “Northland” includes North Pole, Kenai, Soldotna, Homer, Kodiak and numerous smaller communities.

Economics of Competition

ACS Local Telephone Markets

Anchorage
185,000 Lines

- Opened to competition in 1997
- **Nation's most competitive market (nearly 50% market loss)**
- Competitive LECs are GCI and ATT Alascom

Fairbanks
45,000 Lines

- Designated "rural" under Telecom Act, receives USF
- Rural exemption terminated; competition commenced 2001
- **Rapid market share loss (approximately 20% EOY 2002)**
- Competitive LEC is GCI (monopoly cable TV provider)

Juneau
30,000 Lines

- Designated "rural" under Telecom Act, receives USF
- Rural exemption terminated; competition commenced 2002
- **Rapid market share loss (approximately 10% EOY 2002)**
- Competitive LEC is GCI (monopoly cable TV provider)

"Northland"
70,000 Lines

- 70 high cost communities, requires significant USF support
- Rural exemption terminated for one of its two study areas
- Competition ordered in 2001, expected to roll out in 2003

Terms of Competition

- Federal Telecom Act allows competitors to use local telephone company's infrastructure
- Using local telephone company's telephone lines allows competitor to enter market without significant capital investment
- State commissions approve/determine price competitor pays to use telephone lines

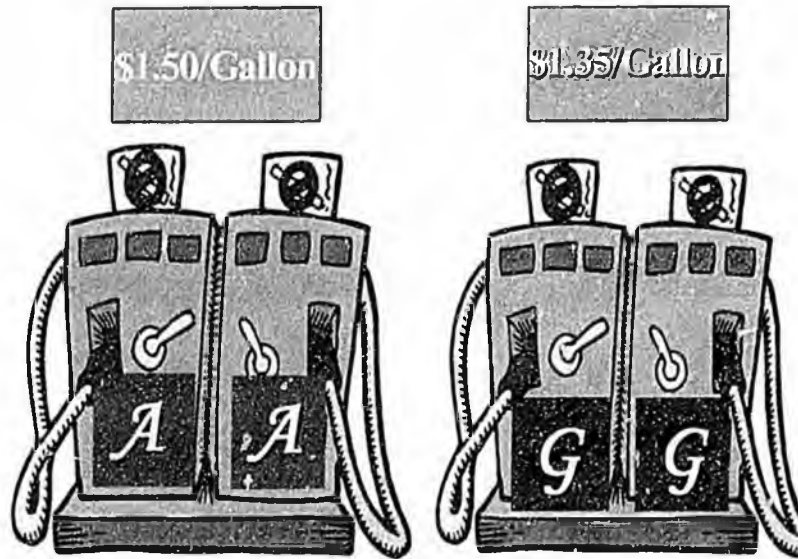
Unprecedented Market Penetration

- If price to use telephone lines is set below telephone company's costs, competitor gains great advantage
 - cheaper costs allow competitor to sell cheaper service
- Price to use telephone lines in Anchorage are below ACS costs
 - ACS Line Cost: \$18.58 ACS Residential Rate: \$12.05
 - GCI Line Cost: \$14.92 GCI Residential Rate: \$ 9.60
- ***Anchorage is most competitive market in U.S.***
“My colleagues on other state commissions are astonished to hear that a competitor has captured 35-40% of the Anchorage market.” RCA Chair Thompson, July 30, 2001

Analogy

Gas station owner is forced to sell fuel to competitor at below-cost and allow competitor use pumps to sell it. Competitor has immediate cost and price advantage – ***and the owner loses money on every gallon sold to the competitor.***

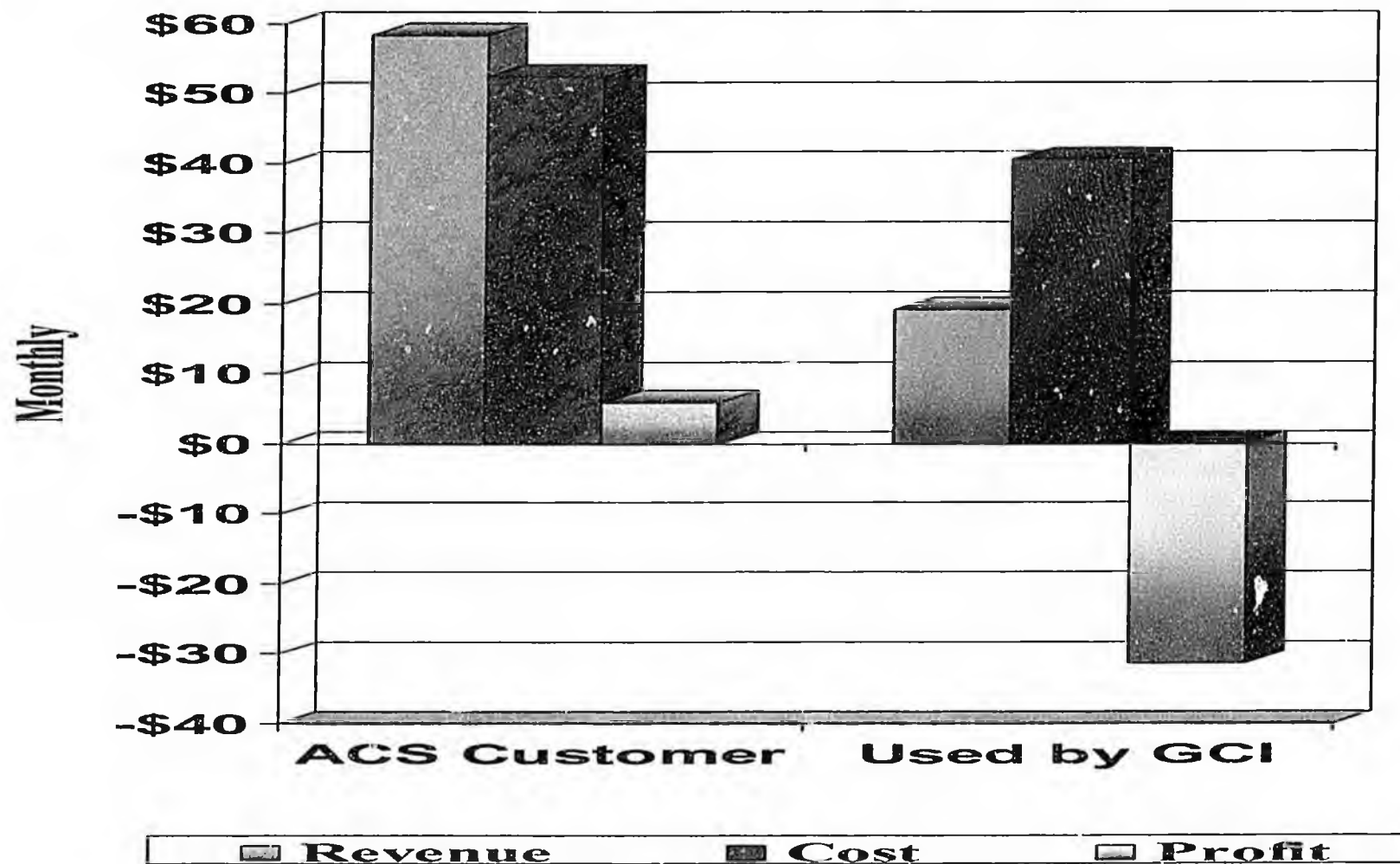
<u>Owner</u>				<u>Competitor</u>	
Retail Price	\$1.50			Retail Price	\$1.35
Costs:				Costs:	
Fuel	(1.20)			Fuel	(1.10)
Operations	(0.25)			Operations	(0.15)
	-----				-----
Profit	\$0.05			Profit	\$0.10



Which pump will the customer choose?

Fairbanks Competition Model

GCI's price to use an ACS telephone line is set below cost. As this Fairbanks example shows, **ACS loses money on every line** GCI uses.



Actual ACS Costs vs. GCI Costs

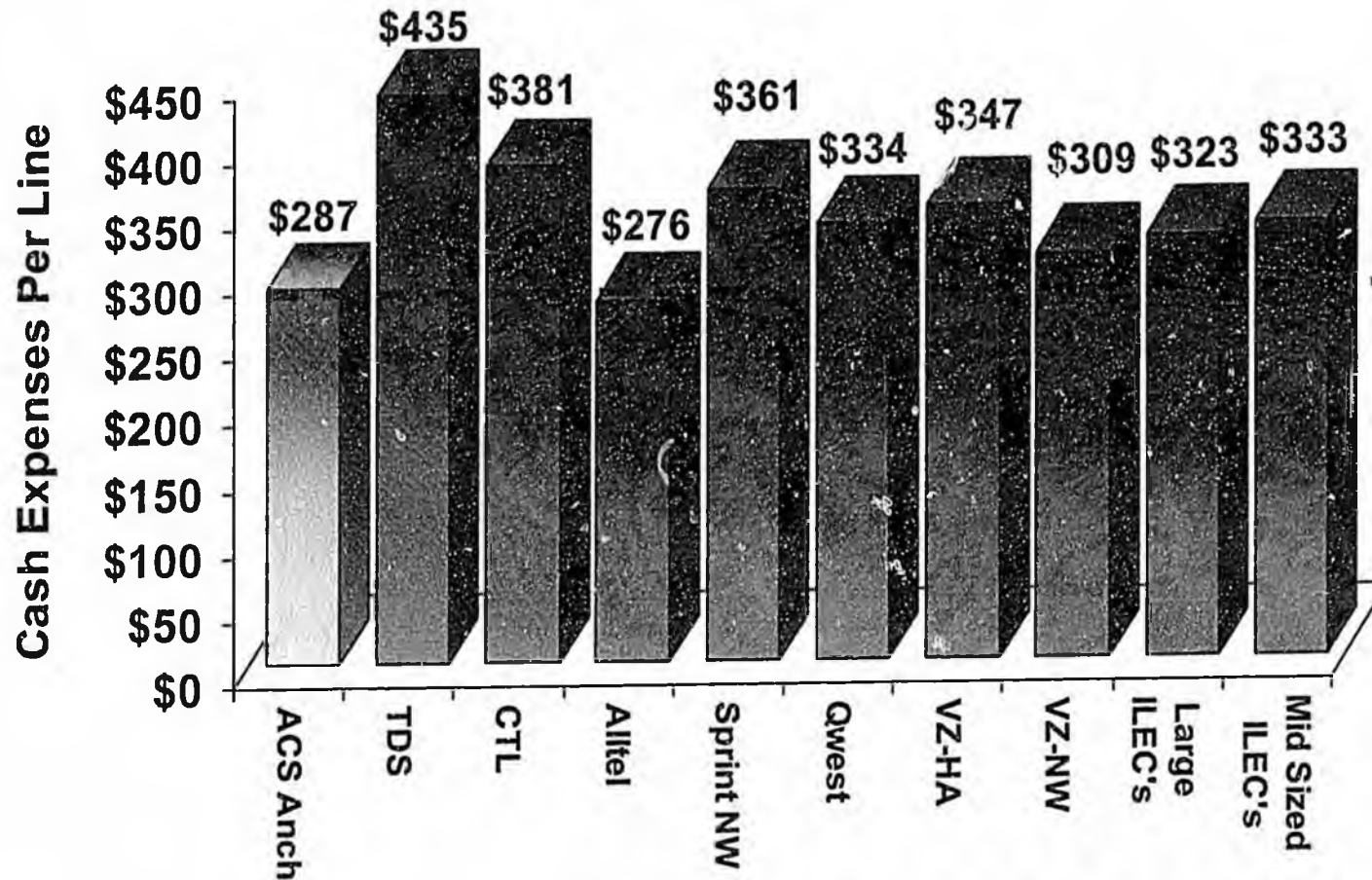
GCI's price to use a telephone line in Fairbanks is less than 60% of ACS' costs. This provides GCI a significant cost advantage.

- ACS Cost per Telephone Line:
 - Actual, Historical (“Embedded”) Cost
 - What did it cost ACS to build? **\$ 33.50**
 - Actual “Forward-Looking” Cost
 - What will it cost ACS to build today? **\$ 36.00**
- GCI Cost per Telephone Line:
 - Hypothetical “Forward-Looking” Cost
 - What would it cost a hypothetical company with hypothetical costs to build hypothetical infrastructure? **\$ 19.19**

ACS Anchorage is Very Efficient

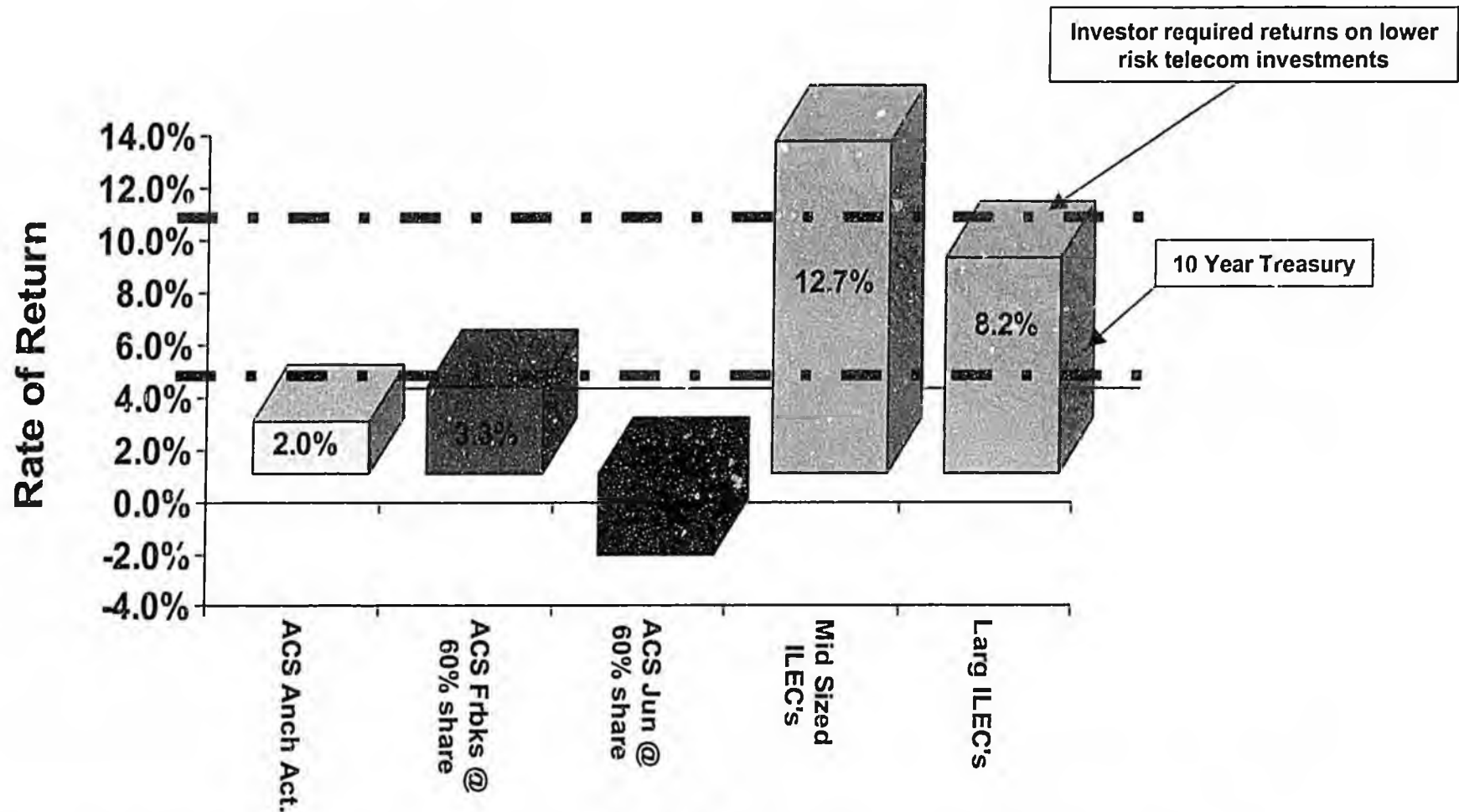
Cash Expenses Per Line vs. Industry

2001



ACS Anchorage = 2001 Results. Industry = All reporting LEC's to FCC.
Source: Form M's, Company annual reports, "Statistics of Communications
Common Carriers, 2000/2001 Edition", FCC

ACS Returns Cannot Attract Capital to Fund Losses



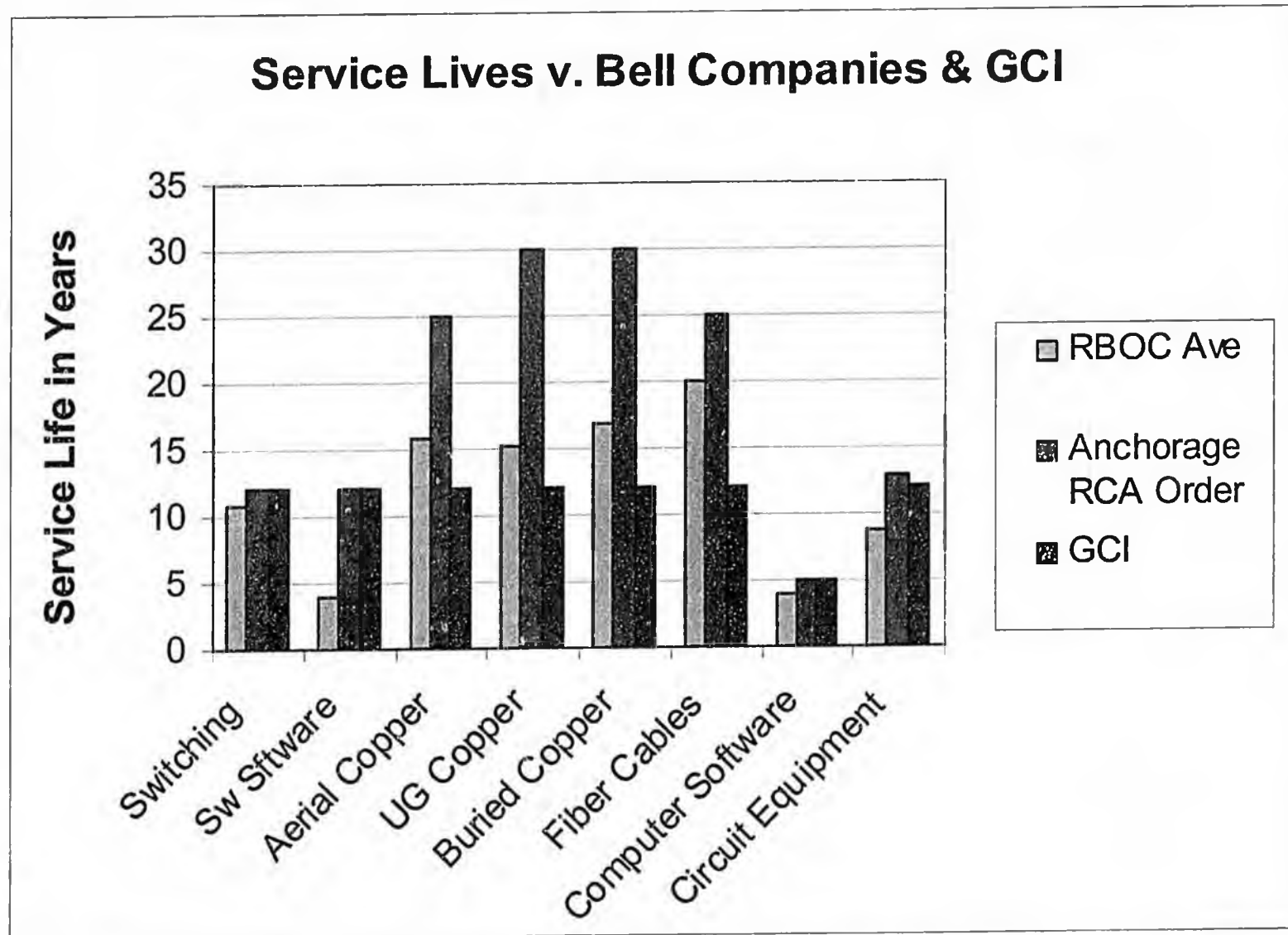
Source: "Statistics of Communications Common Carriers, 2000/2001 Edition", FCC. Large ILEC's include Qwest, Ameritech, Pacbell. Mid Sized ILEC's include Sprint, Alltel, Citizens and Cincinnati Bell. Rate of return = net income/net plant.

State Regulators Exacerbating Problems

- Current ACS rate case decisions suggest state regulators believe ***reducing depreciation expense*** by ***increasing plant lives*** will compensate for imbalance of revenues and expenses caused by terms of interconnection competition
- Recent Supreme Court decisions and FCC order suggest that in a competitive market regulators should ***decrease plant lives***, and thereby ***increase depreciation expense***
- ***Result of Alaska regulatory decisions is to reduce ACS rate base and thereby further reduce future revenues***

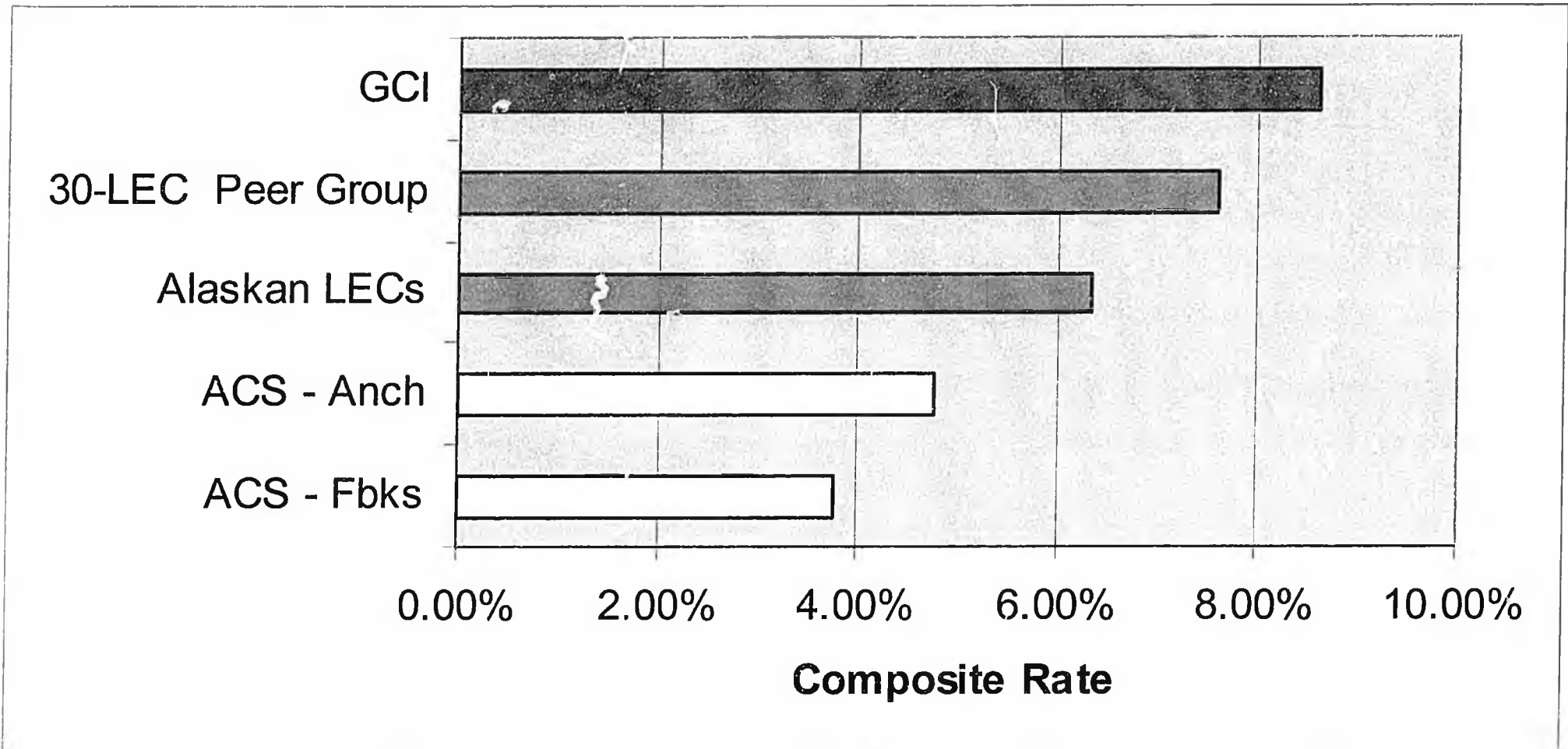
Depreciation - Service Lives

(vs. RBOC & CLEC)



Industry Comparison

Composite Depreciation Rates



Revenue Impact

All Jurisdictions

Prior LEC Depreciation	\$51,673,000
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RCA Ordered Depreciation	\$38,958,000
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RCA-Ordered Reduction	<\$12,715,000>
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Reduction ordered by state commission will reduce rate base for purposes of establishing local service and access rate – and may also result in a retroactive requirement to refund

Conclusion

Legislators Must Act

- **Rather than give state public utility commissions clear direction on competitive issues under Telecom Act, FCC has now delegated greater discretion to states**
- **RCA has implemented regulatory regime that destroys incentive and capability of ACS to invest in Alaska's telecommunications future**
- **Alaska's legislature must give clear policy direction to the RCA to create incentives for investment and allow the market – not more legacy regulation – to govern competition**

STATE OF ALASKA

DEPARTMENT OF COMMUNITY AND
ECONOMIC DEVELOPMENT
REGULATORY COMMISSION OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

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WEBSITE: www.state.ak.us/rca/

January 31, 2003

The Honorable Con Bunde
Alaska Senate
Room 506
State Capitol
Juneau, Alaska 99801-1182

Dear Senator Bunde:

I am pleased to send you the Regulatory Commission of Alaska's Annual Report for fiscal year 2002. It summarizes the Commission's significant issues and programs for the fiscal year that ended June 30, 2002. We have continued to move forward to improve the agency's performance and address the important policy issues involved in delivering reliable and affordable utility services to all Alaskans.

Detailed financial statistics on the public utilities and pipelines operating in the state will be available soon on the Regulatory Commission of Alaska's web site, (<http://www.state.ak.us/rca/>).

On behalf of the Commission, I hope that you will find the report to be useful and informative. If you have any questions or comments, please contact me.

Sincerely,

REGULATORY COMMISSION OF ALASKA



G. Nanette Thompson
Chair

Enclosure



2002

***Regulatory Commission
of Alaska***



2002 Annual Report



Regulatory Commission of Alaska

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*Fiscal year 2002 statistical data will be available at the RCA's
web site shortly after the release of this printed volume.*



STATE OF ALASKA

DEPARTMENT OF COMMUNITY
AND ECONOMIC DEVELOPMENT

REGULATORY COMMISSION OF ALASKA

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GOVERNOR

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January 2, 2003

Honorable Pete Kott, Speaker of the House
and
Honorable Gene Therriault, President of the Senate

Dear Speaker Kott and President Therriault:

On behalf of the Regulatory Commission of Alaska we are pleased to submit to the Alaska State Legislature the Thirty-third Annual Report of the Regulatory Commission of Alaska, covering the fiscal year ending June 30, 2002. This is filed pursuant to AS 42.05.211 and AS 42.06.220.

Respectfully yours,

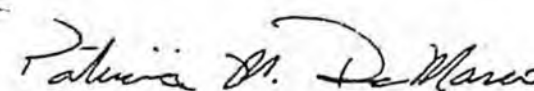
REGULATORY COMMISSION OF ALASKA



Chair



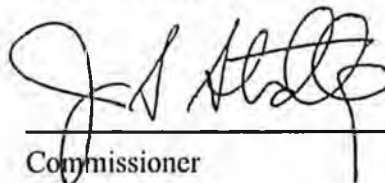
Commissioner



Commissioner



Commissioner



Commissioner



MISSION STATEMENT

"To protect consumer interests by ensuring affordable, reliable utility and pipeline services and ensuring that the utility and pipeline infrastructure is adequate to support community needs."



Chair Thompson (center) is flanked (left to right) by Commissioners Abbott, Smith, DeMarco, and Strandberg.



TABLE OF CONTENTS

<i>Mission Statement</i>	4
<i>Message From the Chair</i>	7
 <i>RCA Commissioners</i>	
G. Nanette Thompson, Chair	8
Bernie Smith	8
Patricia M. DeMarco	9
Will Abbott	9
James S. Strandberg	10
Former Commissioners	10
 <i>RCA Organization</i>	
Organizational Flowchart	11
RCA Roster	12
Agency Responsibilities	13-15
 <i>Fiscal Year Operations</i>	
2002 Overview	16
Operating Budget	17
Economic Development	18
2003 Commission Plan	18
 <i>Regulated Utilities</i>	
Financial Operations and Reported Customers	19
<i>Significant Events</i>	
Electric Events	20
Natural Gas Event	20
Refuse Event	21
Telecommunications Events	21-23
Water & Wastewater Events	23
 <i>Pipeline Carriers</i>	
Financial Operations	24
<i>Significant Events</i>	
Cook Inlet Pipe Line Events	24
North Slope Pipeline Events	25
Trans Alaska Pipeline System Events	25



TABLE OF CONTENTS

<i>Public Advocacy</i>	
Annual Review	26
<i>Significant Events</i>	
Electric Events	27-28
Natural Gas Event	28
Pipeline Event	28
Refuse Event	28
Telecommunications Events	29
Water & Wastewater Event	29
<i>Consumer Protection</i>	
Informal Complaints	30
<i>Significant Events</i>	
Electric Event	31
Telecommunications Event	31
Water & Wastewater Event	32
<i>Tariffs</i>	
Tariff Filings	32-33
<i>Filings & Proceedings</i>	
Orders & Dockets	34
Certification Proceedings	35
Summary of Filings	35-36
Formal Proceedings	36
<i>Court Proceedings</i>	
Alaska Supreme Court Cases	37
Superior Court Cases	37-38
9 th Circuit Court of Appeals	39
<i>Legal Authority</i>	
Statutes	39-40
Certificate of Public Convenience and Necessity	40
Rate Regulations	40
Pipeline Carriers	40
Alaska Administrative Code	40



Fiscal year 2002 was the third year of operation for the Regulatory Commission of Alaska (RCA). It was another year of significant progress for the agency.

The Regulatory Commission of Alaska significantly reduced the backlog inherited from the Alaska Public Utilities Commission. Since the RCA's inception in 1999, we have closed over 700 dockets, while opening an average of 175 new dockets each year. The number of pending dockets has been substantially reduced, and our active caseload is stabilizing at less than 350 dockets. Overall, the Commission decreased the number of pending cases by 11-percent from fiscal year 2001.

To improve the Commission's operations, we implemented a computerized management information system designed to improve our efficiency. The Commission electronically records all filings submitted to the Commission and links these filings to a daily Mailsheet that is available electronically to the public. This system has increased the agency's productivity and allows the public to access data quickly. We continue to increase the amount and type of information available on our website. In fiscal year 2003, the Commission will begin to incorporate the statutory deadlines and reporting requirements established by the Legislature at the end of the last session.

We held several significant hearings, including proceedings on rate change requests from Golden Heart Utilities, Inc., College Utilities Corporation, Alaska Communications Systems, Inc., ENSTAR Natural Gas Company, a Division of SEMCO, and Chugach Electric Association, Inc. As with all rate cases, we review economically regulated utility's rates to allow providers to recover reasonable costs while protecting consumers' interests.

The telecommunications industry has seen dynamic changes occur at a national level, and in our own Alaskan market. The Commission continues to be actively involved in the federal regulatory process advocating for the interests

of Alaskan telecommunications carriers that deliver services to high cost areas with federal support. By our efforts to balance the Telecommunications Act's dual goals of competition and universal service, we assure that Alaskans have affordable and reliable telecommunications options. During the fiscal year, the agency submitted a successful application to the U.S. Department of Agriculture for a grant program to spread broadband Internet access to Alaskan communities not yet connected to the Internet.

In fiscal year 2002, the Commission adopted several significant sets of regulations. These regulation projects included restructuring long distance telecommunications to protect telephone consumers from slamming (the unauthorized switching of a consumer's long distance or local phone service provider); adopting rules to clarify how utilities compensate each other for pole attachments; and defining the role of the Public Advocacy Section. The Commission started several new regulatory projects during the year, including drafting a new regulatory framework for small rural water and wastewater utilities and considering revisions to the telecommunications access charge process.

The 2001 Legislative Audit analysis stated the Commission operates effectively and efficiently and therefore, recommended that we continue to regulate public utilities and pipeline carriers for the next four fiscal years. After a special session, the Legislature extended the agency and operations for one year and adopted deadlines for the Commission to resolve filings. Legislators also changed the process for nomination of the Commission chair to allow Commissioners to elect a chairperson every year.

The Commission is proud of its accomplishments in fiscal year 2002 and will continue to strive to improve the way the agency conducts business.

Sincerely,

G. Nanette Thompson
Chair



CHAIR G. NANETTE THOMPSON



Chair G. Nanette Thompson was appointed to the Regulatory Commission of Alaska on July 1, 1999, with a term expiring June 30, 2004. Ms. Thompson served on the Alaska Public Utilities Commission from 1995 to 1996.

Ms. Thompson is admitted to the practice of law in Alaska, since 1983, and Washington, since 1982. She has seventeen-years of experience as a lawyer in private practice representing business and individual clients and as an Assistant Attorney General for the State of Alaska. After graduating with honors in International Relations from Stanford in 1978, she earned her law degree from the University of Washington in 1982.

Ms. Thompson is an active member of the National Association of Regulatory Utility Commissioners Committee on Telecommunications and was appointed to the Board of Directors in October of 2002, for a two-year term. She was appointed by the Federal Communications Commission (FCC) to serve on the Federal-State Joint Conference on Delivery of Advanced Services in November 1999, and served as State Chair from 1999 to 2001. She was appointed by the FCC to the Universal Service Joint Board in August 2000, and was elected State Chair in 2001.

Ms. Thompson is active in community activities. She served on the Salvation Army's Booth Home Advisory Board from 1989 to 1994, acting as President in 1994, and on the Campfire Boys and Girls Board from 1995 to 2000. She and her husband have five children ranging in age from 13 to 27.

COMMISSIONER BERNIE SMITH



Commissioner Bernie Smith was appointed to the Regulatory Commission of Alaska on July 1, 1999, with a term expiring on June 30, 2003.

Mr. Smith came to the Regulatory Commission of Alaska after serving sixteen-years with Tesoro Alaska Petroleum Company. While employed with Tesoro he held positions as Manager of Alaska Government Affairs and Special Projects, Senior Engineer, and Project Engineer. In 1973, Mr. Smith graduated from Texas A&M University, with a Bachelor of Science degree in Engineering Technology. He has been active in several community organizations, currently serving as board member of the Chugiak-Eagle River Chamber of Commerce and a board member of the State Chamber of Commerce. At the time of his appointment, Mr. Smith was a member of the Alaska Board of Marine Pilots. He served as President and board member of the Boys and Girls Club of the Kenai Peninsula, and was a board member of Nikiski Fire Service Board.

Mr. Smith has two sons, ages 18 and 20.



COMMISSIONER PATRICIA M. DEMARCO



Commissioner Patricia M. DeMarco, Ph.D. was appointed to the Regulatory Commission of Alaska on July 1, 1999, with a term ending June 30, 2002. Dr. DeMarco was reappointed by Governor Tony Knowles to serve for six more years. She serves on the National Association of Regulatory Utility Commissioners Committee on Consumer Affairs. Dr. DeMarco previously occupied the position of President of the Anchorage Economic Development Corporation for four years. She brings to the Commission a strong interest in utility infrastructure as a mechanism to expand the economic potential of Alaska. She has a multi-disciplined approach to solving problems and views the role of regulation as a catalyst for change.

Dr. DeMarco came to Alaska in 1995 from Connecticut where her experience included a twenty-year career in various aspects of electric utility regulation, planning, and operation. She also started a nonprofit corporation to diversify the defense dependent economy, especially the area served by the five utilities in the Connecticut Municipal Electric Energy Cooperative.

Dr. DeMarco received formal education at the University of Pittsburgh. She holds a Bachelor of Science and a Doctorate degree in biology and spent seven-years in biochemical genetics research. Dr. DeMarco is married with two adult children. She serves as Treasurer of the Anchorage Symphony Orchestra and as Secretary of the Anchorage Downtown Rotary Club.

COMMISSIONER WILL ABBOTT



Commissioner Will Abbott was appointed to the Regulatory Commission of Alaska on July 1, 1999. He was reappointed in 2001 for a term expiring March 1, 2007.

Mr. Abbott previously worked for the Alaska Housing Finance Corporation, Municipality of Anchorage, a local environmental firm, and is retired from the United States Air Force.

Mr. Abbott is married and has two sons.



COMMISSIONER JAMES S. STRANDBERG



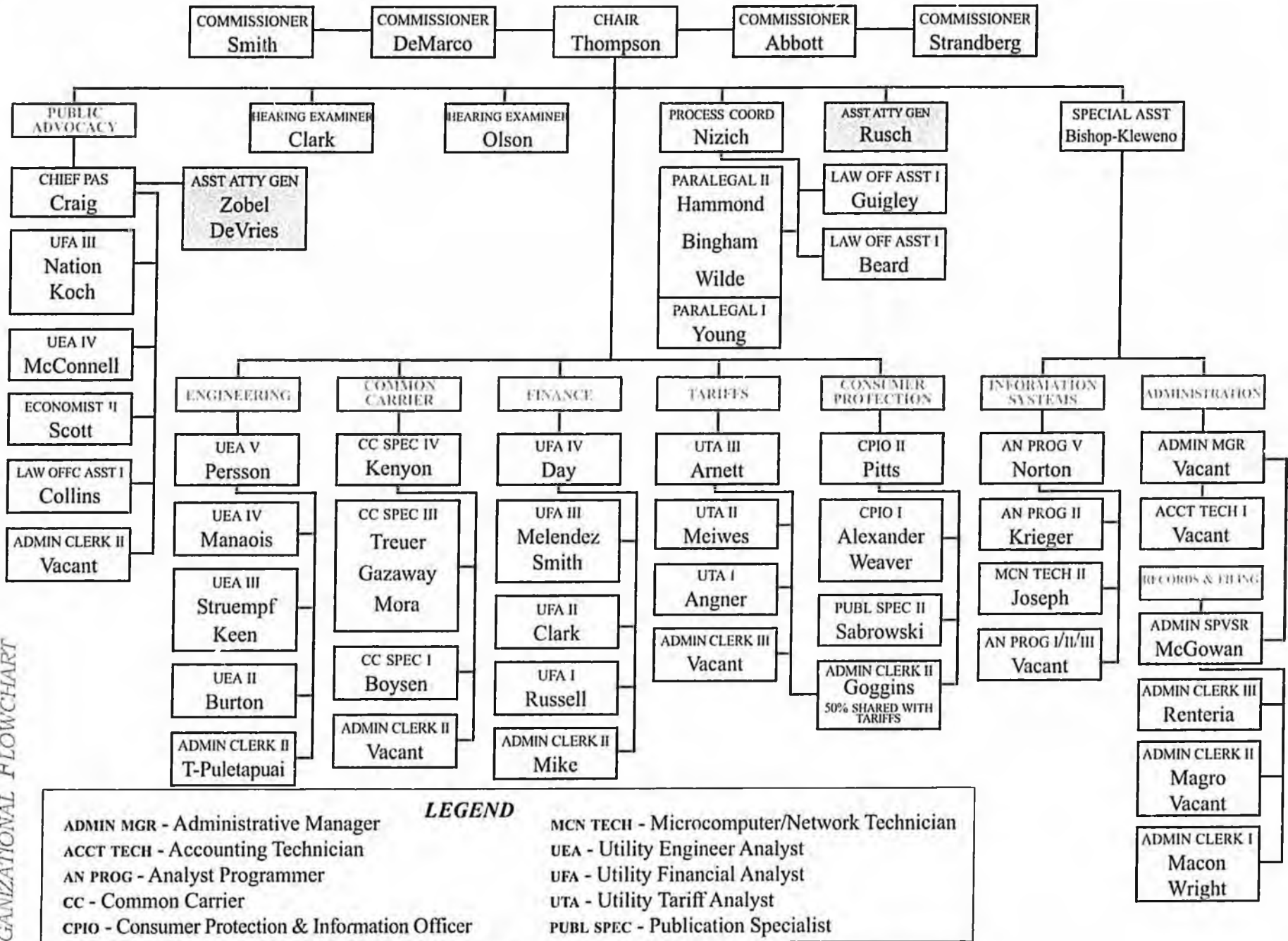
Commissioner James S. Strandberg was appointed to the Regulatory Commission of Alaska on July 1, 1999, and reappointed in 2000 for a six-year term. A life long Alaskan, Mr. Strandberg has twenty-nine years of experience as a Professional Engineer. Born in Anchorage, he attended the University of Alaska, Fairbanks and received a Bachelor of Science degree in Mechanical Engineering in 1970, and a Masters of Science in Arctic Engineering in 1983.

Mr. Strandberg is a registered mechanical and civil engineer in Alaska and has worked in rural and urban areas in his professional practice. Early in his career, Mr. Strandberg worked on the design team for the Trans Alaska Pipeline, and was stationed in Anchorage, Fairbanks, and Houston, Texas. As a Mechanical and Utilities Designer, he worked in private practice designing heating, ventilating and air conditioning, district heating, and power plant systems.

Married for 30-years, Mr. Strandberg and his wife have two grown children.

FORMER COMMISSIONERS

<i>Commissioner</i>	<i>Service Date</i>
James M. Posey	1997 – 1999
Sam Cotten	1995 – 1999
Tim Cook	1994 – 1999
Dwight D. Ornquist	1993 – 1999
Alyce A. Hanley	1993 – 1999
Don Schröer	1991 – 1997
G. Nanette Thompson	1995 – 1996
James E. Carter, Sr.	1992 – 1995
Daniel Patrick O'Tierney	1989 – 1994
Mark A. Foster	1990 – 1993
Susan M. Knowles	1975 – 1993
Don May	1990 – 1992
Peter Sokolov	1987 – 1991
Kathleen E. Whiteaker	1985 – 1990
Louis E. Agi	1983 – 1989
Carolyn S. Guess	1975 – 1989
Marvin R. Weatherly	1975 – 1987
Diana E. Snowden	1981 – 1985
Stuart C. Hall	1976 – 1983
Gordon J. Zerbetz	1963 – 1981
B. Richard Edwards	1974 – 1976
James R. Hendershot	1971 – 1975
John M. Stern, Jr.	1971 – 1973
Loren H. Lounsbury	1967 – 1971
James R. Clouse, Jr.	1967 – 1971
T. Stanton Wilson	1966 – 1966
Harold Moats	1965 – 1966
Maurice Chertkov	1965 – 1965
Joseph Fitzgerald	1964 – 1965
Karl Walter, Jr.	1960 – 1964
Charles Herbert	1960 – 1963
Clyde Courtnage	1960 – 1963



ORGANIZATIONAL FLOWCHART

LEGEND

ADMIN MGR - Administrative Manager	MCN TECH - Microcomputer/Network Technician
ACCT TECH - Accounting Technician	UEA - Utility Engineer Analyst
AN PROG - Analyst Programmer	UFA - Utility Financial Analyst
CC - Common Carrier	UTA - Utility Tariff Analyst
CPIO - Consumer Protection & Information Officer	PUBL SPEC - Publication Specialist

☐ Positions funded under contract. All positions are located in Anchorage. Last revised November 15, 2002.



RCA ROSTER

The Commission is divided into nine major sections and employs 61 people with an operating budget of \$5,871,300 for the fiscal year 2002. The Chair supervises staff and serves as a liaison between staff and Commissioners, and between the Commission and the Legislature.

Commissioners

Abbott, Will COMMISSIONER
 DeMarco, Patricia COMMISSIONER
 Smith, Bernie COMMISSIONER
 Strandberg, James COMMISSIONER
 Thompson, G. Nanette COMMISSIONER, CHAIR

Commission Support Staff

Beard, Brian LAW OFFICE ASSISTANT I
 Bingham, Mary Margaret PARALEGAL II
 Bishop-Kleweno, Dawn SPECIAL ASSISTANT
 Clark, Patricia HEARING EXAMINER
 Guigley, Jennifer LAW OFFICE ASSISTANT I
 Hammond, Anita PARALEGAL II
 Olson, Paul HEARING EXAMINER
 Nizich, Rosalie PROCESS COORDINATOR
 Rusch, Virginia ASST. ATTORNEY GENERAL¹
 Wilde, Ann PARALEGAL II
 Young, Yvette PARALEGAL I

Common Carrier Staff

Boysen, Robin COMMON CARRIER SPECIALIST I
 Gazaway, Richard COMMON CARRIER SPECIALIST III
 Kenyon, Lorraine CHIEF COMMON CARRIER SPEC. IV
 Mora, Michael COMMON CARRIER SPECIALIST III
 Treuer, Philip COMMON CARRIER SPECIALIST III

Consumer Protection (CP) Staff

Alexander, Tamara CP & INFORMATION OFFICER I
 Goggins, Judy ADMINISTRATIVE CLERK II
 Pitts, Agnes CHIEF CP & INFORMATION OFFICER II
 Sabrowski, Catherine PUBLICATION SPECIALIST II
 Weaver, Rose CP & INFORMATION OFFICER I

Engineering Staff

Burton, Jerry UTILITY ENGINEER ANALYST II
 Keen, James UTILITY ENGINEER ANALYST III
 Persson, Brad CHIEF UTILITY ENGINEER ANALYST V
 Manaois, John Paul UTILITY ENGINEER ANALYST IV
 Struempf, James UTILITY ENGINEER ANALYST III
 Tauaese-Puletapuai, Dorothy ADMINISTRATIVE CLERK II

Finance Staff

Clark, Tyler UTILITY FINANCIAL ANALYST II
 Day, Keith CHIEF UTILITY FINANCIAL ANALYST IV
 Melendez, Felix UTILITY FINANCIAL ANALYST III
 Mike, Laurentia ADMINISTRATIVE CLERK II
 Russell, Buell UTILITY FINANCIAL ANALYST I
 Smith, Chris UTILITY FINANCIAL ANALYST III

Information Systems Staff

Joseph, Vince MICROCOMPUTER/NETWORK TECH. II
 Krieger, Christin ANALYST PROGRAMMER II
 Norton, Keith CHIEF ANALYST PROGRAMMER V

Public Advocacy Staff

Collins, Deborah LAW OFFICE ASSISTANT I
 Craig, Lew CHIEF PUBLIC ADVOCACY SECTION
 DeVries, Steve ASST. ATTORNEY GENERAL¹
 Koch, Katherine UTILITY FINANCIAL ANALYST III
 McConnell, Tim UTILITY ENGINEER ANALYST IV
 Nation, Parker UTILITY FINANCIAL ANALYST III
 Scott, Antony ECONOMIST II
 Zobel, Ron ASST. ATTORNEY GENERAL¹

Records & Filing Staff

Macon, Leteasha ADMIN. CLERK I, RECEPTIONIST
 McGowan, Joyce ADMINISTRATIVE SUPERVISOR
 Magro, Holly ADMINISTRATIVE CLERK II
 Renteria, Letitia ADMINISTRATIVE CLERK III
 Wright, Carolyn ADMINISTRATIVE CLERK I

Tariff Staff

Angner, Matthew UTILITY TARIFF ANALYST I
 Arnett, Wendy CHIEF UTILITY TARIFF ANALYST III
 Goggins, Judy ADMINISTRATIVE CLERK II
 Meivres, Jennifer UTILITY TARIFF ANALYST III

¹ Employee of the Department of Law contracted to the Commission. Last revised November 15, 2002.



COMMISSION SUPPORT STAFF

Commission Support staff provides legal and administrative assistance to the Chair and Commissioners. The Chair directs these functions with the aid of a special assistant, assistant attorney general, hearing examiners, paralegal support staff, and clerical support staff.



Leteasha Macon, Receptionist



(Front row, from left) Antony Scott, Rosalie Nizich, Paul Olson, (back row, from left) Mary Margaret Bingham, Jennifer Guigley, Anita Hammond, and Ann Wilde.



COMMON CARRIER STAFF

Common Carrier staff develops and recommends policies concerning local and long distance telephone services, cable, radio, and satellites. Staff administers telecommunication rates, services, and facilities for certificated utilities and presents analyses to the Commission for adjudication. Staff also participates on federal-state joint boards with the Federal Communications Commission and staff from other states.



(Front row, from left) Richard Gazaway, Lorraine Kenyon, Philip Treuer, (back row, from left) Robin Boysen, and Michael Mora.



CONSUMER PROTECTION STAFF

Consumer Protection staff interacts with consumers, utility personnel, members of the media, and staff. Staff investigates and resolves informal consumer complaints, promotes public relations, responds to information requests, and may assist Commission staff with formal complaints. Staff also educates consumers on utility services and rates, and disseminates information to the public and media regarding Commission proceedings.



(Front row, from left) Rose Weaver, Agnes Pitts, Tamara Alexander, (back row, from left) Catherine Sabrowski, and Judy Goggins.



ENGINEERING STAFF

Engineering staff develops and recommends policies concerning utilities for electric, natural gas, steam heat, refuse, water and wastewater, and pipeline carriers. Staff administers rates, services, and facilities for certificated utilities and pipeline carriers. Staff also reviews legal descriptions for service areas, plans for plant expansion, plant-in-service schedules, and depreciation schedules. Staff presents analyses and evaluations to the Commission for adjudication.



(Front row, from left) James Keen, Dorothy Tauaese-Puletapuai, Brad Persson, (back row, from left) James Struempf, John Paul Manaois, and Jerry Burton.



FINANCE STAFF

Finance staff analyzes and evaluates utilities and pipeline carriers financial records, including cost of service studies, Power Cost Equalization, and revenue-requirements. Staff audits utility financial statements, examines historical operating year data, and *pro forma* financial adjustments for all certificated utilities and pipeline carriers.



(Front row, from left) Chris Smith, Tyler Clark, Keith Day, (back row, from left) Felix Melendez, and Buell Russell.



INFORMATION SYSTEMS STAFF

Information Systems staff develops computer programs for the agency's operations, educates staff on software programs, and provides computer support to the Commission. Staff also maintains the Commission's web site and works to automate parts of the Commission's processes.



Vince Joseph, and (seated) Christin Krieger.



PUBLIC ADVOCACY STAFF

Public Advocacy staff provides the Commission with a third party perspective in proceedings to advocate public interest. The Commission assigns cases to the Public Advocacy Section to investigate and participate in proceedings for utilities and pipeline carriers. Staff audits records, engages in settlement discussions, and presents findings with testimony to the Commission.



(Front row, from left) Deborah Collins, Lew Craig, Tim McConnell, (back row, from left) Steve DeVries, Katherine Koch, and Parker Nation.



RECORDS & FILING STAFF

Records & Filing staff manages all of the Commission's public records, orders, and information requests from staff, the public, attorneys, and utilities. Staff processes new filings and documents, maintains current and archive filings, and posts public documents to the Commission's web site.



(Front row) Joyce McGowan, (back row, from left) Letitia Renteria, Holly Magro, and Carolyn Wright.



TARIFF STAFF

Tariff staff investigates and analyzes tariff filings and presents recommendations to the Commission at bimonthly tariff action meetings. Staff coordinates tariff meetings, complies with all public notice requirements for tariff filings, and maintains current master tariffs for all utilities and pipeline carriers.



(Front row, from left) Jennifer Meiwes, Wendy Arnet., Judy Goggins, (back row, from left) Brian Beard, and Matthew Angner.



2002 OVERVIEW

The Commission has worked with the hundreds of public utilities in Alaska with the mission to ensure reliable continued service, sound utility management, and fair rates for residents in all communities of the state.

- ② In 1981, the agency's role was expanded to include oversight of pipeline carriers and pipelines when it merged with the Alaska Pipeline Commission.
- ③ In 1999, the Legislature reorganized and renamed the agency to the Regulatory Commission of Alaska and established the Public Advocacy Section to advocate public interests.

Utility commissions were originally created to protect consumers, because most utility services are provided by monopolies. Today, commissions are faced with the challenge of evaluating regulations and considering policy changes to encourage telecommunications and refuse competition, while protecting consumer interests.

The Regulatory Commission of Alaska (RCA) strives to balance the utilities' and pipeline carriers' investment recovery and the public's right to receive quality service at a fair price. In doing so, the Commission issues certificates of public convenience and necessity to qualified service providers. The RCA regulates the rates, services, practices, or facilities of 257 utilities and 16 pipeline carriers in Alaska.



A service technician with Anchorage Water and Wastewater Utility (AWWU) works inside a caisson. Photo is courtesy of Municipality of Anchorage d/b/a AWWU.



A "Menzi muck" machine carves out a trench to bury power lines. Photo is courtesy of Alaska Electric Light & Power Company.

- ⑤ The RCA has specific jurisdiction over the operation of electric utilities, natural gas utilities, refuse collection, water and wastewater treatment, steam heat producers, telephone companies (local and instate services), as well as oil and gas pipeline carriers.
- ⑤ The Commission computes the power costs and resultant state assistance amounts for customers of electric utilities participating in the Power Cost Equalization program.
- ⑤ The Commission carries out its regulatory responsibilities through several means. It conducts audits, investigations, public meetings, Tariff Action meetings, informal and formal proceedings, and resolves consumer complaints.
- ⑤ The Commission functions as a quasi-judicial body when rendering decisions in formal proceedings and as a quasi-legislative body when establishing and enforcing its regulations. The statutes and regulations of the state govern the Commission's proceedings and determinations.



OPERATING BUDGET

In 1992, following the mandate of the Legislature, the Commission enacted regulations to recover operating costs through an assessment on the revenues of regulated utilities and pipeline carriers. The Regulatory Cost Charge shows up as a recurring surcharge on the monthly billing statements to consumers and shippers.

The Legislature appropriated and the Governor approved a fiscal year 2003 budget of \$6.04 million, funded entirely from the Regulatory Cost Charge. There are no unrestricted general funds in the fiscal year 2002 appropriation.

<i>Fiscal Year</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>% Change (2001-2002)</i>
<i>Appropriations</i>					
Personal Services	\$2,839,900	\$3,287,000	\$3,422,400	\$3,734,500	
Travel	35,000	35,000	52,200	55,000	
Contractual	1,525,200	1,300,900	1,808,700	2,005,500	
Commodities	62,500	62,500	62,500	62,500	
Equipment	13,800	13,800	13,800	13,800	
<i>Total Appropriations</i>	<i>\$4,476,400</i>	<i>\$4,699,200</i>	<i>\$5,359,600</i>	<i>\$5,871,300</i>	<i>9.5%</i>
<i>Expenditures</i>					
Personal Services	\$2,616,802	\$2,989,089	\$3,402,786	\$3,584,182	
Travel	42,773	56,692	72,359	38,008	
Contractual	1,373,854	1,145,843	1,583,573	1,821,477	
Commodities	64,623	77,919	48,615	82,997	
Equipment	22,421	19,689	10,589	127,401	
Relocation Costs	0	0	140,249	0	
<i>Total Expenditures</i>	<i>\$4,120,473</i>	<i>\$4,289,232</i>	<i>\$5,258,171</i>	<i>\$5,654,065</i>	<i>7.5%</i>
<i>Revenue Receipts¹</i>					
General Fund	\$3,926,597	\$4,289,232	\$5,258,171	\$5,654,065	
Program Receipts ²					
<i>Total Revenues</i>	<i>\$3,926,597³</i>	<i>\$4,289,232</i>	<i>\$5,258,171</i>	<i>\$5,654,065</i>	<i>7.6%</i>

¹ The Commission received revenues under various provisions of its statutes including copying and postage charges (AS 42.05.201) and cost allocations in proceedings (AS 42.05.651 and AS 42.06.610).

² Revenues from the Regulatory Cost Charge user fee are recognized on the modified accrual method of accounting for fiscal years 2000 through 2002. Fourth quarter revenues are generated as of June 30th, but collected in July of the following fiscal year.

³ Reporting did not include the transfer of \$332,478.63 on August 20, 1999 and \$12,171.32 on November 9, 1999.



ECONOMIC DEVELOPMENT

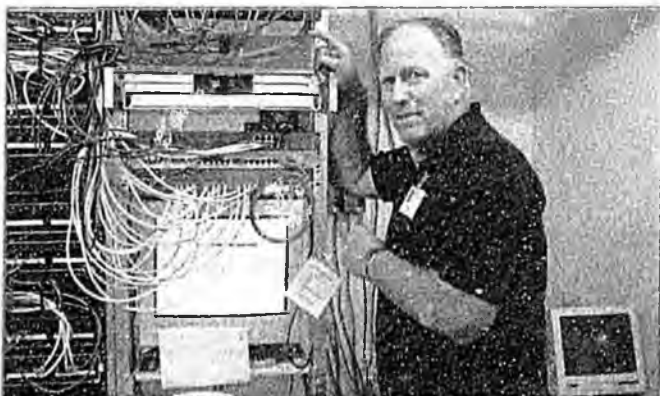
The Commission supports economic development through the use of the following three tools to ensure reliable utility services at affordable rates:

③ *Comparative Information*
Consumer Protection staff provides public information to consumers about comparative utility services and rates based on filed tariffs.

③ *Certification Proceedings*
The Commission issues certificates of public convenience and necessity to qualified applicants that possess the financial, technical, and management capabilities to stimulate economic development and meet the present and future demands for services.

③ *Rate Regulation*
The Commission regulates utilities and pipeline carriers to ensure consumers have reasonable and just rates, with fair rates of return to the utilities. The Commission considers and approves economic development incentive rates, special contracts, and promotions that are in the public interest.

Encouraging rural economic development requires innovative solutions. One of the keys is the improvement of infrastructure to offer advanced telecommunications and energy services in rural areas. Better delivery systems mean a lower cost of power and phone service. Once these communities are linked to the "communications superhighway", there will be more local opportunities for economic interaction in the global marketplace.



Thomas Knight, Network Administrator, grasps the OC3 fiber patch panel "where he will tap light speed". Photo is courtesy of Matanuska Telephone Association, Inc.

2003 COMMISSION PLAN



A helicopter crew replaces old aircraft marker balls on the 69kv transmission line in Juneau. Photo is courtesy of Alaska Electric Light & Power Company.

The Commission will continue to . . .

- ③ Review and approve electric rates charged by regulated electric utilities statewide.
- ③ Monitor refuse services statewide and allow competition when it is in the public interest.
- ③ Review rates of existing gas utilities and applications to expand the availability of natural gas heating in the state.
- ③ Resolve disputes over pipeline tariff rates and participate in the process to develop a regulatory framework to operate a natural gas pipeline from the North Slope.
- ③ Fulfill the directives of the 1996 Telecommunications Act to allow competition and to provide choices to consumers.
- ③ Support improvements to the statewide network to allow the delivery of affordable high-speed data and voice services to all communities in Alaska.
- ③ Coordinate with state and federal agencies to implement the Federal Clean Water Act standards. The Commission will complete its effort to design an alternative regulatory framework for small and government-owned water and wastewater systems.



*FINANCIAL OPERATIONS AND
REPORTED CUSTOMERS*

Prepared by Felix Melendez

<i>Fiscal Year</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Net Plant</i>				
Cable Television ²	\$6,751,000	\$6,232,000	\$6,574,000	\$6,380,000
Electric	1,233,579,201	1,307,506,511	1,361,572,213 ¹	1,389,426,622
Natural Gas	179,757,326	180,458,522	186,650,434	180,965,146
Refuse	6,638,960	5,998,254	3,072,122	3,184,025
Steam Heat	Not reported	1,776,628	7,991,033	8,484,229
Telecommunications ³	417,024,290	660,653,316	625,546,641 ¹	599,831,476
Wastewater	97,823,582	103,568,947	84,272,842	94,340,320
Water	153,698,530	162,073,055	125,579,941	141,494,274
<i>Total Net Plant</i>	<i>\$2,095,272,889</i>	<i>\$2,428,267,233</i>	<i>\$2,401,259,226¹</i>	<i>\$2,424,106,092</i>
<i>Gross Revenue</i>				
Cable Television ²	\$5,372,000	\$5,811,000	\$6,189,000	\$6,563,000
Electric	504,513,606	513,714,260	525,626,713 ¹	557,262,581
Natural Gas	100,865,752	110,451,278	99,580,257	117,028,010
Refuse	26,633,726	31,250,540 ¹	33,077,014 ¹	33,342,330
Steam Heat	Not reported	1,414,788	1,540,413	1,895,793
Telecommunications ³	235,846,988	360,273,606 ¹	357,197,021 ¹	369,760,452
Wastewater	31,473,874	32,343,760	32,518,942	32,488,857
Water	35,647,884	35,503,989	36,029,727	36,959,311
<i>Total Gross Revenue</i>	<i>\$940,353,830</i>	<i>\$1,090,763,221¹</i>	<i>\$1,091,759,087¹</i>	<i>\$1,155,300,334</i>
<i>Net Income</i>				
Cable Television ²	\$784,000	\$972,000	\$981,000	\$757,000
Electric	41,455,886	42,773,482	36,904,719 ¹	31,188,177
Natural Gas	15,710,652	18,010,521	8,789,246	6,580,788
Refuse	2,817,821	3,885,765	2,632,125	3,497,368
Steam Heat	Not reported	(2,796,173)	(1,492,060)	(1,057,779)
Telecommunications ³	24,105,402	32,992,147 ¹	37,839,669 ¹	39,501,928
Wastewater	4,067,810	5,016,028	4,988,554	4,058,481
Water	6,224,657	208,994	6,811,516	5,857,628
<i>Total Net Income</i>	<i>\$95,166,228</i>	<i>\$101,062,764¹</i>	<i>\$97,454,769¹</i>	<i>\$90,383,591</i>
<i>Customers</i>				
Cable Television ²	9,420	7,822	8,130	8,130
Electric	218,621	225,821	229,306 ¹	233,199
Natural Gas	98,220	99,285	103,728	108,487
Refuse	52,116	50,359	51,160	52,315
Steam Heat	Not reported	124	135	148
Telecommunications ³	427,000 ¹	534,555 ¹	592,815	570,216
Wastewater	57,364	62,949	59,219	60,057
Water	58,212	60,586	60,292	60,150
<i>Total Customers</i>	<i>920,953¹</i>	<i>1,041,501¹</i>	<i>1,104,785¹</i>	<i>1,092,702</i>


¹ Figures have been restated to correct compilation errors in summarizing reported data in previous annual reports.

² Cable television is not regulated by the Commission as to rates and services with the exception of GCI Cable, in Juneau, which is rate regulated for basic tier channels.


³ Includes local exchange carriers only.




ELECTRIC EVENTS

 *Disputed Settlement Agreement Resolved; Chugach Electric Association, Inc.*

The Commission issued an order resolving disputes arising under a Settlement Agreement between Chugach Electric Association, Inc. (Chugach), and its two largest wholesale customers, Matanuska Electric Association, Inc. and Homer Electric Association, Inc./Alaska Electric Generation & Transmission Cooperative, Inc. The Settlement Agreement provided for the determination of Chugach's current wholesale rates and the effective rates since 1997 for the two wholesale customers. Docket: U-96-37, pending


 *Defining the Future Market Structure of Alaska's Electric Industry*

Through hearings and extensive comments from interested parties, the Commission examined the electric utility market structure study that was commissioned jointly with the State Legislature. Having considered gathered information and the issues highlighted by the study, the Commission found insufficient evidence in the record to show that retail electric competition would be in Alaska's public interest. There was no compelling evidence that rates would be lowered and pursuing competition would have required an extensive investment to create a well-functioning power market, exposing ratepayers to significant risks. The Commission decided to continue to monitor the dynamics that influence electric utility policy, specifically the natural gas supply and improvements to power transmission up and down the Railbelt, and should the Legislature take up policy concerning electric utility restructuring in the future, the Commission will strive for the greatest public benefit. Docket: R-97-10, closed (9/28/01)

 *Rate Increase and Methodology Change; Chugach Electric Association, Inc.*

After reconsideration, the Commission granted a 3.98 percent interim and refundable rate increase to Chugach Electric Association, Inc. (Chugach), and began proceedings to determine appropriate rates and the recovery of environmental remediation costs related to its Cooper Lake Hydro Project, and to change from a Times Interest Earned Ratio to a Rate Base Rate of Return methodology of establishing rates. The proceeding will constitute the first comprehensive review of Chugach's retail and wholesale rates since 1989. Docket: U-01-108, pending

NATURAL GAS EVENT

 *Approved Cook Inlet Natural Gas Supply Contract and Review of Base Rates; ENSTAR Natural Gas Company, a Division of SEMCO*

The Commission approved a gas supply contract to help satisfy projected long-term supply requirements for the customers of ENSTAR Natural Gas Company (ENSTAR), a Division of SEMCO, to stimulate further Cook Inlet natural gas exploration efforts. Docket: U-01-07, closed (6/10/02)

The Commission investigated ENSTAR's base rates and approved their request to update the revenue-requirement to the 2000 test-year as a result of the 1999 acquisition of ENSTAR by SEMCO Energy Company. The Commission bifurcated the proceeding into two phases. The first phase established an appropriate revenue-requirement and the second phase established the appropriate rate design for ENSTAR to recover its approved revenue-requirement. Dockets: U-00-88, pending



An employee for ENSTAR Natural Gas Company (ENSTAR), a Division of SEMCO, repairs a residential gas meter on a new home. Photo is courtesy of ENSTAR.



"Keep Alaska's bears wild, handle your garbage responsibly." Photo is courtesy of Waste Management of Alaska, Inc.

REFUSE EVENT



Consolidation of Refuse Certificates; Waste Management of Alaska, Inc.

Waste Management of Alaska, Inc. (WMA), a wholly owned subsidiary of USA Waste Management, Inc., filed to consolidate all refuse utilities owned under a single certificate and tariff. The Commission approved WMA's application to merge its refuse public utility operations in Alaska under a single certificate. The Commission also approved an application to change the utility's name to Waste Management of Alaska, Inc. d/b/a Anchorage Refuse, Andersen Services, Arrow Refuse, Peninsula Sanitation, Star Sanitation Service, Tongass Sanitation, Wasilla Refuse, and Williwaw Services. The Commission will review the rate impact of this consolidation in 2003. Docket: U-00-30, pending

TELECOMMUNICATIONS EVENTS



Local Competition in Fairbanks and Juneau

The Commission prevailed on appeals filed by incumbent carriers who seek to overturn the Commission's orders to open up local competition in the Fairbanks and Juneau areas (U-97-82/143/144 and U-99-141/142/143) litigation is still pending. If the incumbent carrier is successful in overturning key Commission decisions in these areas, local competition

in rural Alaska markets could be delayed or halted. The Commission spent significant resources to review and resolve various disputes and requests concerning carrier-to-carrier practices and interconnection agreements. Dockets: U-96-89, U-01-37, U-01-41, U-02-18, pending



Designation of Public Interest Pay Telephones

The Commission requested applications from eligible providers, following the adoption of regulations for the provision of public interest pay telephones in 2000. After final selections are made, at least one public pay telephone will be available in each community where a need for service exists. The public pay telephones will be subsidized through the Alaska Universal Service Fund. Dockets: R-97-03, U-01-124, pending



Alaska Power & Telephone Company (AP&T) customer representatives make a call. Photo is courtesy of AP&T.



Consideration of the Reform of Intrastate Interexchange Telecommunications Market Structure and Regulations

The Commission continued to review regulations governing the intrastate interexchange market, access charge reform, and a variety of other matters. The review of interexchange market rules includes whether to change the responsibilities of the carrier of last resort within the state and what regulations should apply to the rates and services provided by long distance carriers to consumers and to other carriers.



The Commission is considering the appropriate manner for incumbent carriers to recover the cost of using the local network to originate and terminate interexchange services, as part of the access charge reform review. One of the primary issues in the proceeding is whether these access costs should be recovered directly from consumers (e.g., through a flat monthly surcharge) or should the costs continue to be recovered through long distance rates.

The Commission is evaluating options for streamlining the processes for authorizing long distance carriers to operate in Alaska. Such streamlining may improve the agency's efficiency and reduce regulatory burden placed on utilities. Dockets: R-98-01, R-00-04, R-01-01, pending



Disaggregate Study Areas for Distributing Federal Universal Service Funds

The Federal Communications Commission allowed incumbent Eligible Telecommunications Carriers (ETC) to submit plans for distributing Federal Universal Service Funds within a geographic area in order to better target federal funding to high-cost areas and consequently reduce funding to low-cost areas. In 2002, the Commission received plans from each of the regulated incumbent ETCs. These plans were uncontested and have gone into effect as allowed under federal regulation. Docket: R-00-01, pending



Universal Service Support for Local Service; GCI Communication Corporation

The Commission granted GCI Communication Corporation (GCICC) status as an Eligible Telecommunications Carrier (ETC) in Fort Wainwright, Fairbanks, and Juneau study areas of Alaska. Through the ETC status, GCICC is allowed to file and obtain Federal Universal Service Fund support for the provision of local service. Docket: U-01-11, pending



Granted Partial Interim and Refundable Rate Relief; Alaska Communications Systems, Inc.

Alaska Communications Systems, Inc. (ACS) filed for the first time in ten years, a rate increase in the service areas of Anchorage, Fairbanks, Juneau, and Sitka. The Commission granted a 24 percent, interim and refundable rate increase to allow ACS to earn a reasonable rate of return on their investments. Docket: U-01-34, pending



An Arctic Slope Telephone Association Cooperative, Inc. (ASTAC) telephone technician splices wires. Photo is courtesy of ASTAC.



Biennial Intrastate Interexchange Access Charge Review Methodology Adopted on a Test Basis

On a test basis, the Commission adopted a biennial review methodology proposed by utilities that participated in the annual review of intrastate interexchange access charge rates. Under this process, the local exchange carriers (LEC) who participate in the annual pooled rate calculation file their revenue-requirements in alternating years, with approximately half of the LECs filing in a given year. The individual utility revenue-requirement reported in the prior year would be included in the pooled calculation for those LECs not filing in the current year. This methodology is anticipated to provide some overall reduction in costs for the LECs that are required to produce the revenue-requirement studies, while generally improving the quality of each annual regulatory review by reducing workload compression and allowing for a more detailed review of individual company revenue-requirements. Docket: U-01-49, closed (5/31/02)



Appropriate Use of Federal Universal Service Funds by Telecommunications Carriers

As a prerequisite for continued receipt of Federal Universal Service Funds, the Federal Communications Commission (FCC) requires the Commission to annually certify whether Eligible Telecommunications Carriers (ETC) in Alaska will use the funds only for the provision, maintenance, and upgrading of facilities, and services for which the support was intended. The Commission reviewed the information concerning the use of federal funds by each ETC in Alaska and on September 26, 2001, certified to the FCC that the funds received in 2002 would be appropriately used. Docket: U-01-90, pending



New sewer pipes to be installed in Anchorage. Photo is courtesy of Municipality of Anchorage d/b/a Anchorage Water and Wastewater Utility.

WATER & WASTEWATER EVENTS



Water Service Expanded to Girdwood; Municipality of Anchorage d/b/a Anchorage Water and Wastewater Utility

The Commission approved Municipality of Anchorage d/b/a Anchorage Water and Wastewater Utility's (AWWU) application to amend its certificate and expand service into the entire Girdwood area. The Commission found AWWU would meet the fire flow needs of a proposed Girdwood Post Office. Anchorage Water and

Wastewater Utility will also offer a viable alternative to an existing small water utility if the utility experiences financial, managerial, or technical difficulties.

Docket: U-01-35, closed (6/10/02)



Consideration of the Regulations for Certificated Small Public Water and Wastewater Systems

The Commission initiated an inquiry into the development of new regulations for small public water and wastewater systems as part of the State of Alaska's responsibility to the U.S. Environmental Protection Agency to implement the Safe Drinking Water Act. The State must demonstrate an effective strategy with control points to achieve statewide technical, financial, and managerial fitness or available funds could be reduced for Alaska's safe drinking water program. The Alaska Department of Environmental Conservation (ADEC) is pursuing a "Capacity Development Program" to improve the operation of small water and wastewater systems. The Commission has been working closely with ADEC and other stakeholders to develop a unified strategy to effectively implement the Capacity Development Program, so that the U.S. Environmental Protection Agency's requirements are met while minimizing regulatory redundancies. Docket: R-02-04, pending



Denied Request to Recover Acquisition Adjustment and Approved Cost Based Interim and Refundable Rate Relief; Golden Heart Utilities, Inc.

Golden Heart Utilities, Inc. (GHU) water and wastewater divisions was denied a rate relief to recover an amount in excess of the price purchased for the systems acquired from Fairbanks Municipal Utilities System (U-00-115/116). However, GHU was granted an interim and refundable rate relief based on reported increases in actual investment and operating costs for the utility in test-year filings. Dockets: U-02-13, U-02-14, pending



FINANCIAL OPERATIONS

Prepared by Felix Melendez

<i>Fiscal Year</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Property</i>				
Gross	\$11,143,942,613	\$11,167,509,117	\$11,422,190,371	\$11,531,079,380
Net	4,409,150,310	4,202,504,850	4,169,113,782	4,107,233,114
<i>Revenue</i>				
Gross	\$1,395,820,949	\$1,440,629,200	\$1,307,978,918	\$1,531,197,148
Net	274,463,173	504,581,438	306,261,965	381,926,530
<i>Throughput¹</i>				
<i>(barrels)</i>	686,390,088	668,104,686	722,723,334 ¹	754,350,768
<i>Gross Revenue</i>				
<i>(per barrel)</i>	\$2.03	\$2.16	\$1.81 ¹	\$2.03
<i>Net Revenue</i>				
<i>(per barrel)</i>	\$0.40	\$0.76	\$0.42 ¹	\$0.51

This figure above shows the amount of Property and Revenue for regulated pipeline carriers. The Throughput of oil has increased 4% and \$0.22 per barrel in Gross Revenue from fiscal year 2000 to fiscal year 2001.

COOK INLET PIPE LINE EVENTS



Acceptance of Gas Sales Agreement; Alaska Pipeline Company

The Commission accepted the amended Gas Sales Agreement (GSA) between Alaska Pipeline Company, a wholly-owned subsidiary of SEMCO Energy Inc., of which the ENSTAR Natural Gas Company (ENSTAR) is a Division of the Union Oil Company of California (Unocal). ENSTAR filed a tariff advice letter requesting approval of a new GSA between Unocal and ENSTAR. The tariff was suspended for six months to allow ENSTAR the opportunity to show that the GSA provisions were in the public interest, that a reasonably competitive procurement process was undertaken, and to explain the GSA's impact on long-term regional gas supply. The Commission amended the GSA after reviewing evidence, testimony, and public comments. The GSA serves to provide ENSTAR ratepayers with a reliable supply of reasonably priced gas, and creates an incentive for more than one gas producer to remain in Cook Inlet. Docket: U-01-07, closed (6/10/02)



Rate Settlement; Cook Inlet Pipe Line Company

The Commission approved a multi-year rate settlement based on an agreement between the State of Alaska and Cook Inlet Pipe Line Company. The Commission accepted filed rates for the periods of 1993 through 1997; rates prescribed by the Settlement Agreement for 1998, 1999, and 2000; a settlement methodology, whereby rates were calculated for the years of 2001 and 2002; and will be calculated for future years. Docket: P-92-05, pending



Application for Certification; Kenai Kachemak Pipeline Company, LLC

The Commission processed an application from Kenai Kachemak Pipeline Company, LLC (KKPL) for a certificate to construct and operate a gas pipeline from Ninilchik to Kenai. The pipeline will transport natural gas from supplies near Ninilchik for delivery to connecting pipelines at Kenai. If granted a certificate, KKPL will be the first certificated natural gas pipeline under Alaska Statutes 42.06. Docket: P-02-06, pending

¹ Figures have been restated to correct compilation errors in summarizing reported data.



Salmon Creek Dam in Juneau generates over 10 percent of the city's hydroelectric power. Photo is courtesy of Alaska Electric Light & Power Company.

NORTH SLOPE PIPELINE EVENTS



Transportation Rate Settlement Agreement; Alpine Transportation Company

The Commission accepted the rate settlement for the 2001 transportation rates based on a Settlement Agreement between the State of Alaska and Alpine Transportation Company. The agreement prescribes a methodology under which the pipeline carrier must file rates at or below the maximum calculated rate. Docket: P-00-15, pending



Pipeline Certification; BP Transportation (Alaska) Inc.

The Commission granted, on an interim basis, a connection permit to BP Transportation (Alaska) Inc., to connect the Northstar Oil Pipeline to the Trans Alaska Pipeline System at Pump Station No. 1. The Commission will grant a final permit if specific terms and conditions of the connection are found reasonable. Docket: P-01-06, pending



Pipeline Certification; Milne Point Pipeline Company

The Commission granted, on an interim basis, a connection permit to Milne Point Pipeline Company to connect to the Oliktok Pipeline Company. The Commission will grant a final permit if specific terms and conditions of the connection are found reasonable.

Docket: P-01-07, pending

TRANS ALASKA PIPELINE SYSTEM EVENTS



Reopened Quality Bank Proceedings; Trans Alaska Pipeline System Carriers

The Federal Energy Regulatory Commission (FERC) consolidated its Trans Alaska Pipeline System (TAPS) quality bank proceedings and ordered hearings before a FERC administrative law judge. In order to place the Commission's quality bank proceedings in the same procedural status as those of the FERC, the Commission reopened Docket P-98-09; consolidated the Commission's quality bank dockets; directed that concurrent hearings be held with the FERC; and appoint an administrative law judge. Hearings in this docket will be held concurrently with FERC hearings regarding the quality bank proceedings in the fall of 2002. Docket: P-89-02, pending



Transfer of Ownership; Phillips Transportation Alaska, Inc.

The Commission approved the transfer of a 3.0845 percent interest in the Trans Alaska Pipeline System pipeline and terminal assets from BP Pipelines (Alaska) Inc. (BP), to Phillips Transportation Alaska, Inc. In previous years, BP owned approximately 50 percent of the pipeline, but currently owns approximately 47 percent. Phillips Transportation Alaska, Inc. ownership has increased from approximately 24 to 27 percent. Docket: P-01-08, pending



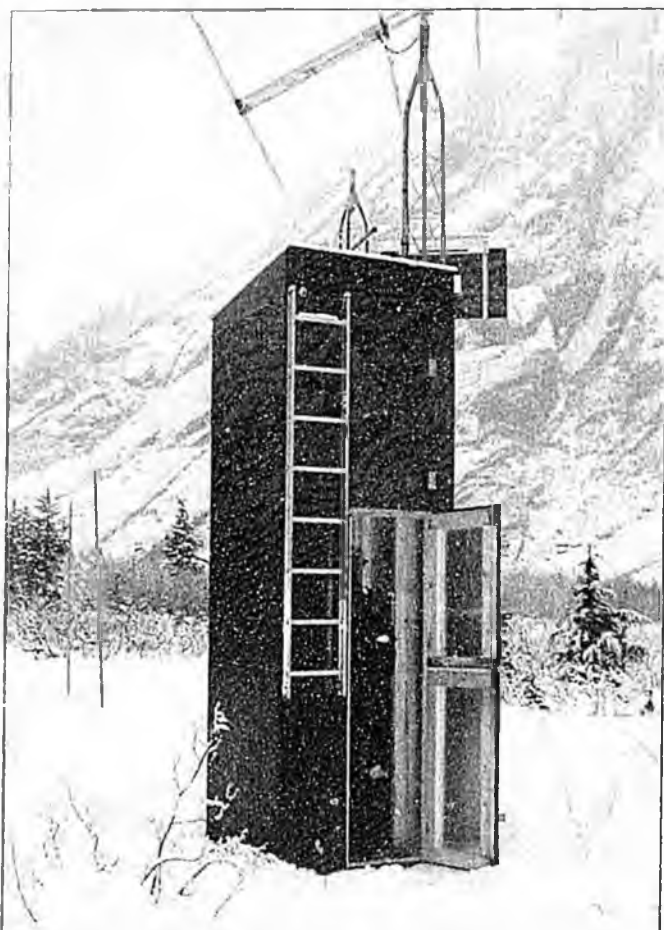
Alaska Power & Telephone Company (AP&T) wireless technician, Dave Pflaum works on the High Mountain Web Camera. Photo is courtesy of AP&T.



ANNUAL REVIEW

The Public Advocacy Section (PAS) was established by the Legislature in 1999 to operate independently from the Commission and represent the public interest. As a party, the PAS investigates all relevant issues; presents the results of its investigation to the Commission, as necessary; and may submit stipulations of agreed upon issues for the Commission's approval. The PAS staff has the responsibility of participating as a party (when named by the Commission) and testifying in proceedings before the Commission.

The PAS generally investigates historical and subject area research of the utility proposal; conducts onsite audits of the utility's records; discovery and pre-filed written testimony; and prepares cross-examinations of utility witnesses at hearings. The PAS may also engage in settlement discussions.



A remote weather station beams weather reports to Anchorage as part of a statewide reporting system. Photo is courtesy of Alaska Electric Light & Power Company.

Public Advocacy Staff

In fiscal year 2002, the PAS staffed two utility financial analysts, utility engineering analyst, law office assistant, and a section chief. Two Assistant Attorneys General provided a combined 150 percent of their time on legal support and representation for the PAS (with 50 percent of time devoted to Commission appeals). Outside consultants were employed for two cases during the fiscal year.

Summary of Utility Dockets

The PAS staff filed testimony, reports or comments in 12 dockets, and participated in nine separate hearings before the Commission. In total, the PAS spent 31 days at hearing. The PAS also attended numerous prehearing and discovery conferences before Commission hearing examiners, and participated in workshops. The PAS regularly participated in settlement conferences to narrow or settle issues, and jointly filed stipulations to resolve issues in eight dockets. The PAS counsel regularly engaged in motion practice, including legal briefs when necessary. Currently, the PAS is named a party to 39 open dockets that are in various stages of investigation.

Summary of Regulation Dockets

The PAS participated in two regulation proceedings. In Docket R-02-02, the PAS proposed to amend existing regulations and add a new section to the Commission's regulations that would define powers and duties of the Public Advocacy Section. The PAS petitioned the Commission to adopt the proposed amendments, presented argument at a public meeting, and filed extensive reply comments.

The PAS also participated in Docket R-02-03, regarding the proposed rules that govern fuel cost adjustment clauses. The PAS filed comments supporting regulations that would allow only costs directly associated with fuel to be passed on to ratepayers. In the proceeding, the PAS joined in a workshop with Commission staff and utilities.



ELECTRIC EVENTS



Transfer Price of Gas Methodology Argued; Municipality of Anchorage d/b/a Municipal Light & Power Department

Municipality of Anchorage d/b/a Municipal Light & Power Department (ML&P) proposed to compute the transfer price of gas (associated with ML&P's purchase of one-third interest) from Beluga River Gas Field using the rate base/rate of return methodology. Subsequently, the PAS proposed using the Debt Service Coverage methodology, which the Commission approved. Docket: U-96-36, pending



Wholesale Rates Determined; Chugach Electric Association, Inc.

Chugach Electric Association, Inc. (Chugach) proposed rates for its wholesale customers Matanuska Electric Association, Inc., Homer Electric Association, Inc./Alaska Electric Generation & Transmission Cooperative, Inc. (AEG&T) under the terms of the Settlement Agreement. The PAS argued that certain costs incurred by Chugach should not be included in the rate and recommended other cost reductions. The Commission agreed and ordered the cost reductions. Matanuska Electric Association, Inc. and AEG&T disputed the cost allocations proposed by Chugach. The PAS argued against changing the allocations, pointing out the Settlement Agreement specified that allocations were to remain unchanged until a general rate case is filed. The Commission agreed and required compliance with the approved Settlement Agreement. Docket: U-96-37, pending



Methodology for Line-Loss Factor Established; Chugach Electric Association, Inc.

Chugach Electric Association, Inc. (Chugach) and its wholesale customers disagreed on how to measure and allocate line-loss. In fiscal year 2001, the PAS and other parties (Chugach, Alaska Electric Generation & Transmission Cooperative, Inc., Matanuska Electric Association, Inc., and Homer Electric Association, Inc.), presented a panel of experts to agree upon an approach through the use of a consultant. The Commission accepted the consultant's study and all issues have been stipulated with the Commission's approval pending. The PAS participated in numerous technical meetings and negotiations. Docket: U-99-106, pending



Inclusion of Fixed Costs in Cost of Power Adjustment Argued; Homer Electric Association, Inc.

The Commission opened an investigation into the use of Homer Electric Association, Inc.'s (HEA) Cost of Power Adjustment (COPA) to recover the fixed costs of an affiliate, Alaska Electric Generation & Transmission Cooperative, Inc. The PAS argued against the use of HEA's COPA to recover fixed costs. The Commission approved the exclusion and the affiliate's fixed costs will be determined in a pending docket. Docket: U-00-18, pending



Electric Rates Stipulated; Golden Valley Electric Association, Inc.

Golden Valley Electric Association, Inc. (GVEA) filed revenue-requirements, cost of service study, and a rate design study to justify a rate reduction. The PAS reviewed GVEA's financial records and applied general rate making principles to reach a settlement agreement with GVEA. The result was a 2.6 percent reduction in rates. The Commission approved the stipulation and the rate decrease was implemented. Docket: U-00-93, pending



Taken out of service in 1998, this is one of two power houses built to generate power that used water from the Salmon Creek Dam. Photo is courtesy of Alaska Electric Light & Power Company.



Contributions for Line Extensions; Chugach Electric Association, Inc.

Chugach Electric Association, Inc. proposed to reduce contributions to the cost of primary line extensions for residential and commercial construction with the intent to eliminate its line extension credit to new homebuyers. The PAS and the Anchorage Homebuilders Association opposed the change. The Commission accepted a stipulation among the parties to provide continued contributions at reduced levels. Docket: U-01-01, pending



Policy on Guaranteed Recovery Argued; Chugach Electric Association, Inc.

Chugach Electric Association, Inc. (Chugach) filed its first complete general rate case since 1987. The filing included a revenue-requirement, depreciation study, cost of service study, and rate redesign. Chugach requested a rate increase of four percent. The Commission decided some issues in advance of considering the overall rate increases. One issue was a request by Chugach to create two regulatory assets by granting explicit approval for the guaranteed recovery of two specific expenditures. The PAS argued against the creation of a regulatory asset in both instances as being contrary to generally accepted rate making. The Commission approved the creation of the assets. The remainder of the rate increase is being considered in fiscal year 2003. Docket: U-01-108, pending

NATURAL GAS EVENT



Terms of Gas Sales Agreement Argued; ENSTAR Natural Gas Company, a Division of SEMCO Energy, Inc.

ENSTAR Natural Gas Company (ENSTAR), a Division of SEMCO, Inc. requested approval of the Gas Sales Agreement (GSA) between Union Oil Company of California (Unocal) and Alaska Pipeline Company, a subsidiary of ENSTAR. The proceeding included the price index, peaking and transportation fee, GSA term, and opportunity for arbitrage. The PAS argued for an alternative price, against the peaking and transportation fees, a definition of termination, and a means to limit arbitrage. The Commission granted the existing terms for price, peaking and transportation fees, but set limits on the GSA term and Unocal's ability to arbitrage. ENSTAR filed

revenue-requirements without proposed rate changes. The PAS supported a decrease of 2.39% and the Commission approved a 1.96% decrease.

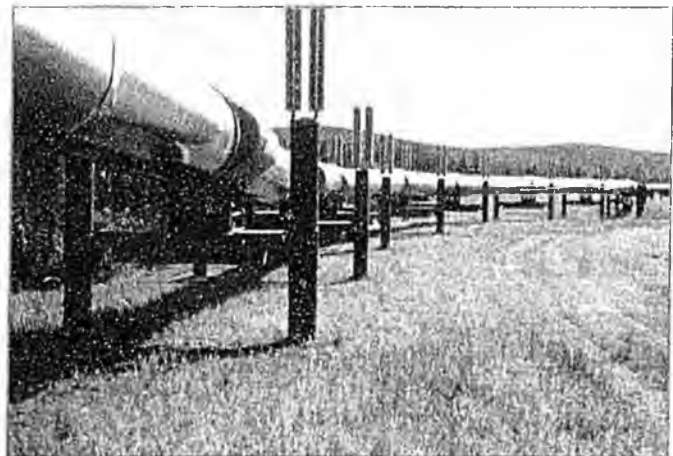
Dockets: U-00-88, pending; U-01-07, closed (6/10/02)

PIPELINE EVENT



Rates for the Trans Alaska Pipeline System Argued

The owners of the Trans Alaska Pipeline System, affiliates of Amerada Hess Pipeline Corporation have separate transportation tariffs that have been in contention since 1986. The PAS filed several briefs supporting a cost based transportation rate. Docket: P-97-04, pending



The Alaska pipeline. Photo is courtesy of Alaska Division of Community and Business Development.

REFUSE EVENT



Revenue-Requirement Studies Argued; Waste Management of Alaska, Inc.

Waste Management of Alaska, Inc. (WMA) filed proposed revenue-requirement studies in an attempt to justify rate increases in eight areas they serve. The PAS investigated and recommended the studies be rejected due to critical deficiencies. At hearing, after PAS cross-examined WMA's expert witness, WMA requested that the Commission allow a withdrawal of filings and to submit new studies using a new test-year. The Commission approved a stipulation between WMA and the PAS to allow the submission of new test-year revenue-requirements. Docket: U-00-30, pending



TELECOMMUNICATIONS EVENTS



Local Exchange Rates for 75-Percent of Ratepayers Statewide Argued; Alaska Communications Systems, Inc.

Alaska Communications Systems, Inc. (ACS) local exchange companies filed for rate increases in the service areas of Anchorage, Fairbanks, Juneau, and Sitka. The PAS filed testimony of two outside consultants and a PAS witness. During the proceeding, the PAS, ACS, and GCI Communication Corporation agreed to stipulate operating expenses and to include profits in the rates. A five-day hearing was held on depreciation expense, the largest single expense included in rates. Dockets: U-01-34, U-01-82, U-01-83, U-01-84, U-01-85, U-01-87, pending



Rural Exemption for Wireless Service Examined; Alaska Power & Telephone Wireless, Inc.

Alaska Power & Telephone Wireless, Inc. filed an application to provide local wireless service in Ketchikan. The Commission requested information to evaluate the applicability of the rural exemption. The PAS filed a legal brief regarding rural exemption issues and the utility's requirement to meet eligible telecommunications carrier laws under the Telecommunications Act of 1996. Docket: U-01-109, pending



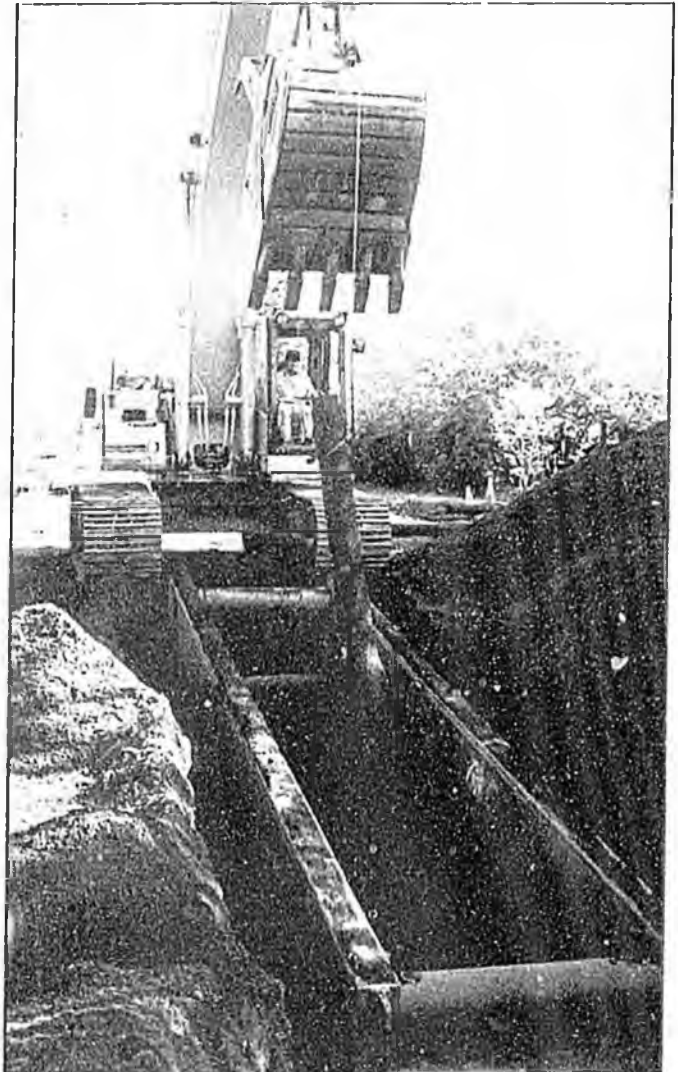
Alaska Power & Telephone Company (AP&T) technician, Celinda Hanson is with the Power Division of Wales Island. Photo is courtesy of AP&T.

WATER & WASTEWATER EVENT



Rate Increases Argued; Golden Heart Utilities, Inc.

Golden Heart Utilities, Inc. (GHU) filed revenue-requirements and rate design studies for a proposed rate increase. The PAS countered with several proposed reductions. The Commission agreed with most of the PAS' reductions in cost and issued an order. Immediately following the Commission's order, GHU filed a second request for an increase in rates, which is still pending. Dockets: U-00-115, U-00-116, U-00-146, closed (5/21/02); U-02-13, U-02-14, pending



Alaska Water and Wastewater Utility (AWWU) replaces old wooden water pipes. Photo is courtesy of Municipality of Anchorage d/b/a AWWU.



INFORMAL COMPLAINTS

Investigating and resolving complaints has become a vital element in the Commission's public protection role. The Commission urges consumers to resolve complaints directly with the utility or pipeline carrier. If the matter cannot be settled with the utility or pipeline carrier, consumers and pipeline shippers may seek relief from the Commission. If Commission Staff determines the complaint results from a violation of a tariff, Staff can require the utility or pipeline carrier to conform to the minimum standards spelled out in the tariff. Staff will investigate the complaint, review the tariff and contact the utility. Staff also reviews Commission orders, applicable statutes and regulations to determine the

validity of the complaint, and then recommend an appropriate course of action. Consumers are notified with a summary of the facts and explanation of the recommended resolution. Although a vast majority of complaints are resolved informally, if consumers are not satisfied with Staff's decision, a formal complaint may be filed directly with the Commission through the appeal process. A formal complaint that is accepted by the Commission for adjudication is assigned a docket number and an investigation is instituted into the issues raised in the complaint. In fiscal year 2002, six informal complaints appealed Staff's decision and were docketed for adjudication.

Prepared by Tamara Alexander

Complaints	1999	2000	2001	2002
Cable Television	1	1	3	0
Electric	77	67	78	72
Natural Gas	26	25	22	19
Pipeline	0	0	0	0
Refuse	5	13	14	25
Steam Heat	0	0	0	0
Telecommunications	638	450	548	587
Wastewater	3	2	4	3
Water	43	32	13	22
Totals	793	590	682	728

The figure above shows the number of informal complaints filed by customers for regulated utilities and pipeline carriers.

Telephone Complaints	
153	Billing Practices
291	Quality of Service
13	Rates and Charges
130	Service Availability and Line Extensions
587	Total

The data demonstrates that electric and telephone utilities generate the majority of informal complaints received by the Commission. This is generally to be expected because these utilities account for the greatest number of customers, the largest plant investment, and the most frequent regulatory activities.

Contact Summary	1999	2000	2001	2002
Telephone	11,198	9,400	10,366	10,350
Conferences	298	383	340	951
Totals	11,496	9,783	10,706	11,301

The figure above shows the number of telephone contacts and personal conferences handled by the Consumer Protection Staff.

Informal Complaints	
234	Billing Practices
313	Quality of Service
44	Rates and Charges
137	Service Availability and Line Extensions
728	Total

(+6.7% change from fiscal year 2001.)



Prepared by Tamara Alexander

<i>Complaints</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Complaints Opened	793	590	682	728
Complaints Closed	818	605	670	719
Complaints Pending (start of fiscal year)	47	22	7	19
Complaints Pending (end of fiscal year)	22	7	19	28

The figure to the right shows the number of informal complaints that were opened, processed, and closed. Complaints that were pending during the fiscal year were carried over into the next year.

ELECTRIC EVENT



*Customer Disputes Utility's Billing Practice;
Chugach Electric Association, Inc.*

A customer of Chugach Electric Association, Inc. (Chugach) filed an informal complaint with the Commission disputing the utility's billing practice. The utility had transferred a delinquent balance from the customer's business account to the customer's residential account. Staff investigated the complaint, and notified the customer that Chugach could not disconnect residential service for an outstanding business account balance, nor could Chugach disconnect service for nonpayment of a bill related to another class of service at a different service location. Chugach acknowledged that as the customer kept the residential account current, Chugach could not disconnect residential service for the outstanding business account. However, Chugach would disconnect the residential account if it became delinquent. Additionally, if the residential service was ever permanently disconnected at the customer's request or temporarily disconnected to transfer from one location to another, Chugach would require the delinquent business balance to be paid in full as a condition before starting new service. In review of the customer's account, Chugach found unclaimed capital credits for the business account and together with the customer, reached agreement for the unpaid balance that would be paid over the next few years with the proceeds from the capital credit. The complaint was resolved to the customer's satisfaction when Chugach agreed to remove the balance that was transferred to the residential account. Consumer Protection File: C-02-180, closed (4/29/02)

TELECOMMUNICATIONS EVENT



*Customers Blocked from Internet Access;
Summit Telephone & Telegraph Company
d/b/a Summit Telephone Company*

Summit Telephone & Telegraph Company d/b/a Summit Telephone Company (Summit) established a two-way Extended Area Service (EAS) between local exchanges in Chatanika, Haystack, Cleary Summit, and Fairbanks through the Basic Exchange Telecommunications Radio Service (BETRS). The service allows customers to call on the BETRS system, to and from certain communities without incurring long distance charges. Summit became concerned when customers found it difficult to place telephone calls due to the congestion caused by increased Internet usage and the limited capacity of BETRS. Therefore, Summit notified customers and the Commission, that it would immediately block EAS access to Internet providers, causing customers to pay a long distance charge when they connect to the Internet.

The Commission received complaints opposing Summit's actions blocking EAS and argued that charges for Internet use violated the Commission's approved stipulation providing for two-way EAS. Summit was granted an interim EAS blocking of Internet calls and required to report improvements to the BETRS in the Chatanika, Haystack, and Cleary Summit areas. Docket: U-02-17, pending

WATER & WASTEWATER EVENT

Bulk Water Service Discontinued in Fairbanks; Golden Heart Utilities, Inc.

The Commission granted Golden Heart Utilities, Inc.'s (GHU) request to discontinue bulk water service to customers in Fairbanks who were not connected to GHU's water system. As a result, the Commission received informal complaints from GHU's bulk water customers who stated they had no other source of water supply in terms of the water's quality or rates. Also, customers complained they had not been given adequate notification to find a new bulk water supplier.

The Commission reopened the evidentiary record and scheduled a videoconference to take additional testimony in Fairbanks and Anchorage regarding the provision of bulk water service. The Commission learned that GHU had removed all equipment that would allow continuation of bulk water service at its former location. Golden Heart Utilities, Inc. testified it was not the only available source for bulk water. As a result, a request was filed by another entity, to provide bulk water service. The Commission granted a waiver of the certificate requirement, and approved the new applicant to provide service. Dockets: U-00-115, U-00-116, (closed 5/21/02)



View of Aspund Wastewater treatment facility near Pt. Woronzof in Anchorage. Photo is courtesy of Municipality of Anchorage d/b/a Alaska Water and Wastewater Utility.

TARIFF FILINGS

Tariffs are the written terms, conditions, rules and rates governing a utility's conduct in providing public utility service. They are similar to the bylaws of a corporation. In approving a certificate of public convenience and necessity, the Commission reviews the applicant's tariff. All regulated utilities and pipeline carriers are required to maintain a tariff and to operate under its terms.

Regulated utilities and pipeline carriers must notify the Commission of any proposed changes to its tariffs. In most cases, the Commission must approve tariff revisions before they can take effect. The Commission considers most tariff filings at Tariff Action meetings, which are held in public bi-monthly. For certain kinds of utilities, the Commission allows proposed tariff revisions to take effect automatically at the end of a thirty-day period. The most common occurrence of tariff revisions taking effect automatically is with respect to interexchange telecommunications utilities.

Prepared by Wendy Arnett

<i>Tariff Filings</i>	<i>2002</i>	<i>Percent</i>
Cable Television	1	0%
Electric	154	29%
Natural Gas	9	2%
Pipeline	59	11%
Refuse	13	2%
Steam Heat	8	2%
Telecommunications	253	47%
Wastewater	12	2%
Water	27	5%
<i>Totals</i>	<i>536</i>	<i>100%</i>

The figure above shows the number and percentage of tariff filings by entity. The number of telecommunications tariff filings represents 168 filings made by local exchange carriers and 85 filings made by interexchange telecommunications carriers.



Prepared by Wendy Arnett

<i>Tariff Filings</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Processed Routinely	560	411	475	455
Suspended	40	63	63	50
Withdrawn	17	23	23	9
Rejected	8	9	1	0
Pending	8	38	14	22
<i>Totals</i>	<i>633</i>	<i>544</i>	<i>576</i>	<i>536</i>

The figure above the comparison of filed tariffs by category.

<i>Tariff Revisions</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
General Rate Change ¹	47	49	30	41
General Rate Restructure	0	2	5	0
Simplified Rate Filing	2	0	6	4
New Service/Equipment Offering	158	143	100	91
Nonrecurring Rate	8	5	7	19
Universal Access Surcharge	30	4	1	1
Regulatory Cost Charge	75	107	110	106
Contracts	46	16	24	25
Fuel, gas, and purchased power surcharges; Power Cost Equalization filings; and nonfirm power purchase rates ²	133	85	124	117
Rule Change	76	55	59	40
Miscellaneous	48	78	110	68
Promotions ³	0	0	0	24
<i>Totals</i>	<i>633</i>	<i>544</i>	<i>576</i>	<i>536</i>
<i>Percent Change</i>	<i>+1.4%</i>	<i>-14.0%</i>	<i>+5.9%</i>	<i>-6.9%</i>

The figure above shows the number of requests for tariff changes by category. Each request is counted only once regardless of the number of proposed tariff changes it includes.

¹ In previous annual reports, some filings now shown in this category were classified as Miscellaneous. The General Rate Change category does not include simplified rate filings.

² There were no Power Cost Equalization (PCE) base rate changes for 2000, one PCE funding level change in 2001, and two PCE funding level changes in 2002.

³ In previous annual reports, Promotions were counted under Miscellaneous.



Prepared by Joyce McGowan

Orders Issued	1999	2000	2001	2002
Substantive	509	566	741	518
Procedural	144	34	33	28
Totals	653	600	774	546

The figure above illustrates the number of orders issued by category.

Orders Issued	Substantive	Procedural
Cable Television	6	0
Electric	99	9
Generic ¹	54	5
Natural Gas	12	0
Pipeline	62	3
Refuse	35	3
Telecommunications	224	8
Wastewater	2	0
Water	24	0
Totals	518	28

The figure above shows the number of orders issued by entity in fiscal year 2002.

Docket Summary	1999	2000	2001	2002
Dockets Opened	171	205	172	152
Dockets Closed	198	206	285	194
Dockets Pending (start of fiscal year)	559	532	531	418
Dockets Pending (end of fiscal year)	532	531	418	376
Percent Change ²	-5.1%	-0.2%	-21.3%	-10.0%

The figure above shows the Commission's docket summary.

ORDERS & DOCKETS

The Commission issued 546 decisions or orders in fiscal year 2002. They are categorized into two groups: substantive and procedural. Substantive orders reflect findings and conclusions based on evidence included in the formal record of the Commission. Procedural orders relate to the process and schedule used to handle a case.

All formal proceedings before the Commission are identified as "dockets". Dockets are numbered functionally to denote the type of proceeding, the year of its initiation, and numerical sequence in that year.

- Ⓒ "R" represents regulatory dockets,
- Ⓒ "P" represents pipeline dockets, and
- Ⓒ "U" represents utility dockets.

For example, P-01-03 is the third pipeline docket opened by the Commission in the 2001 calendar year. All material, legal pleadings, and decisions are identified by this number and filed in the docket. After the Commission has issued a final order, the docket is closed.



¹ Generic refers to regulatory dockets involving more than one type of entity.

² The percentage figures have been restated to correct compilation errors reported in prior annual reports.



CERTIFICATION PROCEEDINGS

Prepared by Joyce McGowan

Every utility (with limited exceptions) and pipeline carrier must obtain a certificate of public convenience and necessity to provide service to the public for compensation. The Commission must approve all amendments to, or transfers of, certificates, as well as acquisitions of controlling interest in certificate holders. In fiscal year 2002, the Commission processed 63 applications for certificates.

The figure to the right shows the number of certification proceedings by entity.

Certification Proceedings	1999	2000	2001	2002
Cable Television	0	2	3	3
Electric	3	4	7	6
Natural Gas	2	2	1	0
Pipeline	6	11	7	5
Refuse	9	6	3	3
Steam Heat	0	0	0	0
Telecommunications	61	55	42	37
Wastewater	1	2	4	2
Water	5	2	6	7
Totals	87	84	73	63

The criteria for issuing certificates is prescribed by law. The service must be required for the public convenience and necessity, and the applicant must be fit, willing, and able to provide the service.

Most small electric utilities in the Power Cost Equalization program applied for certificates prior to fiscal year 1989. Several of these applications are still pending approval because of incomplete financial information or system safety considerations.

The figure to the right shows the number of certification proceedings by category.

Certification Proceedings	1999	2000	2001	2002
Acquisitions	7	3	2	4
Amendments	9	13	12	4
New Certificates	50	39	33	34
Certificate Transfers	9	23	13	13
Exemption from Certification	0	0	2	1
Discontinuation of Service	1	0	7	5
Temporary Operating Authority	3	1	0	0
Other	8	5	4	2
Totals	87	84	73	63

SUMMARY OF FILINGS

A substantial part of the Commission's mission is to handle and process tariff filings, formal proceedings, informal complaints, and certification proceedings. Each document filed with the Commission is electronically scanned, categorized, appropriately routed, and filed. All documents received are posted daily to the Mailsheet (Daily Filings) and available to the public for viewing on the Commission's website.



Aerial photo of Haines, Alaska. Photo is courtesy of Alaska Power & Telephone Company.



Prepared by Tamara Alexander, Wendy Arnett, and Joyce McGowan

<i>Utility Type</i>	<i>Informal Complaints</i>	<i>Tariff Filings</i>	<i>Certification Proceedings</i>	<i>Formal Proceedings</i>
Cable Television	0	1	3	0
Electric	72	154	6	8
Generic ¹	0	0	0	6
Natural Gas	19	9	0	4
Pipeline	0	59	5	6
Refuse	25	13	3	5
Steam Heat	0	8	0	0
Telecommunications	587	253	37	54
Wastewater	3	12	2	2
Water	22	27	7	4
<i>Totals</i>	<i>728</i>	<i>536</i>	<i>63</i>	<i>89</i>

The figure above illustrates the distribution of the Commission's workload for filings made in 2002. The table does not include Commission obligations arising from government actions or from initiatives taken by the Commission. Telecommunications represents 168 filings made by Local Exchange Carriers and 85 filings made by Interexchange Telecommunications Carriers.

FORMAL PROCEEDINGS

Prepared by Joyce McGowan

In addition to tariff and certification filings, the Commission institutes formal proceedings to consider: rate changes, rule changes, special contracts, complaints against utilities and pipeline carriers, investigations of service quality or management practices, and regulations. Frequently, requests for general rate changes include or necessitate a restructuring of rates. Formal proceedings impact the Commission's workload due to considerable time and resources required to audit, investigate, prepare prefiled testimony, conduct public hearings, determine and issue decisions, and process requests for reconsideration.

<i>Formal Proceedings</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Access Charge Filing	21	21	19	3
Contracts	2	1	6	2
Generic/Regulations	5	10	5	9
<i>Investigations:</i>				
Complaints	0	7	12	9
Management Practices	0	0	3	2
Interconnection	2	1	4	7
Eligible Carrier				
Designation	0	0	1	3
Investigations: Other	3	7	2	10
<i>Rate & Rule Change:</i>				
General Rate Change	6	18	1	14
Rate Restructure	0	5	9	1
Service/Equipment Offering	12	13	18	14
Rate Change: Other	6	1	2	0
Rule Change	1	0	7	0
<i>Miscellaneous</i>				
Equal Access Ballots	5	3	0	2
Protected/Confidential Status	8	16	3	1
Miscellaneous: Other	0	18	7	12
<i>Totals</i>	<i>71</i>	<i>121</i>	<i>99</i>	<i>89</i>

The figure to the right represents categories of formal proceedings, excluding certifications. Rate-related filings continue to dominate the Commission's formal proceedings.

¹ The act involves more than one type of utility.



ALASKA SUPREME COURT CASES



Chugach Electric Association, Inc. v. the Regulatory Commission of Alaska

In fiscal year 1997, Chugach Electric Association, Inc. (Chugach) attempted to arrange power sales contracts with customers in the exclusive service territory of Municipality of Anchorage d/b/a Municipal Light & Power Department (ML&P). After which ML&P filed a complaint with the Alaska Public Utilities Commission (APUC). After briefing, the APUC issued an order prohibiting Chugach from selling power to customers in ML&P's service territory without obtaining a certificate for that service. The Alaska Supreme Court affirmed the APUC order. Case: S-09692, closed



Matanuska Electric Association, Inc. v. Chugach Electric Association, Inc.

In 1997, Matanuska Electric Association, Inc. (MEA) complained that the Cost of Power Adjustment (COPA) for wholesale power it purchased from Chugach Electric Association, Inc. (Chugach) was unjust and unreasonable because Chugach used an excessive line-loss factor in the computation. The Alaska Public Utilities Commission (APUC) issued U-97-36(13), which required Chugach to recalculate the COPA balancing account for 1995 through 1997 and refund excessive charges to its wholesale customers. The superior court reversed the APUC decision and MEA appealed to the Alaska Supreme Court. The Regulatory Commission of Alaska filed an *amicus curiae* brief asking the court to remand the case to the RCA. Case: S-09839, pending



ACS of Alaska, Inc., ACS of the Northland, Inc., and ACS of Fairbanks, Inc. v. Regulatory Commission of Alaska and GCI Communication Corporation

The Alaska Communications Systems, Inc.'s local exchange companies appealed from the superior court decision affirming the Commission's order terminating the rural exemption under the Telecommunications Act of 1996. Case: S-10466, pending

SUPERIOR COURT CASES



Chugach Electric Association, Inc. v. Regulatory Commission of Alaska

After Municipality of Anchorage d/b/a Municipal Light & Power Department (ML&P) filed an application to provide electric service to a non-military customer located on Fort Richardson Army Post, the Regulatory Commission of Alaska (RCA) ruled that ML&P should list its Army Post customers in its tariff rather than in the service area description in its certificate. Municipality of Anchorage d/b/a Municipal Light & Power Department petitioned for reconsideration and Chugach Electric Association, Inc. (Chugach) sought to intervene. After extensive briefing, the RCA ruled that it has concurrent jurisdiction on the military bases so long as there is no conflict with federal law. The RCA held there is no conflict with federal law where no issue of competitive procurement is involved. The RCA determined that it would continue to follow the past practice of listing ML&P's Army Post customers in the service area description of its certificate. The superior court affirmed in the fiscal year of 2002 the RCA's order, holding that the issue Chugach attempted to appeal is not ripe for adjudication. Case: 3AN-01-8288 CI, closed



Alaska Power & Telephone Company (AP&T) Metlakatla crew (Richard Booth and Kathy Brendible) are shown working on a power pole. Photo is courtesy of AP&T.



ACS of Alaska, Inc., ACS of the Northland, Inc., and ACS of Fairbanks, Inc. v. Regulatory Commission of Alaska and GCI Communication Corporation

The local exchange companies now known as the Alaska Communications Systems, Inc. (ACS) companies appealed the Regulatory Commission of Alaska's order terminating its rural exemption under the Telecommunications Act of 1996. After the Iowa Utilities Board II decision by the Eighth Circuit Court of Appeals, the ACS companies moved for a stay of the Commission's order. The superior court denied the stay, and the Alaska Supreme Court rejected a petition for review. The court also denied ACS' motion to vacate the Commission's decision. The superior court issued its substantive order affirming the Commission's decision. Cases: 3AN-98-4759 CI, 3AN-98-4903 CI, 3AN-98-4905 CI (Consolidated); Telephone Utilities of Alaska, Inc. et al. v. RCA, Cases: 3AN-99-3494 CI, 3AN-99-3499 CI (Consolidated), closed



Alaska Exchange Carriers Association, Inc. v. Regulatory Commission of Alaska

Alaska Exchange Carriers Association, Inc. (AECA) filed a proposed tariff revision to change the procedure for modifying the first point of switching. After receiving written comments regarding the proposed tariff revision, the Commission rejected it without holding an evidentiary hearing. Alaska Exchange Carriers Association, Inc. and Alaska Communications Systems, Inc. appealed the order, contending that the Commission could not deny the tariff revision without holding an evidentiary hearing. The superior court remanded these to the Commission for an evidentiary hearing. Case: 3AN-00-3714 CI, pending



ACS of Fairbanks, Inc. et al. v. Regulatory Commission of Alaska and GCI Communication Corporation

Alaska Communications Systems, Inc. filed in the Alaska Superior Court for the same injunctive and declaratory relief it sought in the federal district court. Alaska Communications Systems, Inc. seeks relief from the local exchange interconnection terms arbitrated in U-99-141/142/143. The Superior Court appeal has been stayed while the same issue is litigated in the federal courts. Case: 3AN-00-3725 CI, pending



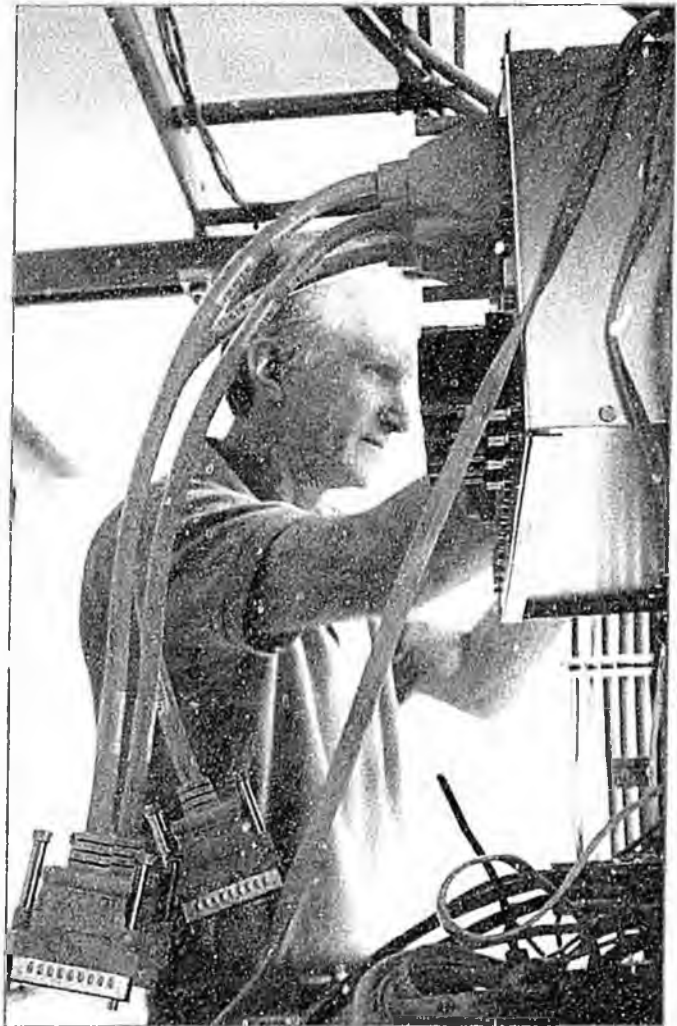
GTE Communications Corporation v. Regulatory Commission of Alaska

GTE Communications Corporation (GTE) appealed the Commission's order denying petitions to grant confidential status to financial statements filed in compliance with AS 42.05.451(b). Case: 3AN-00-3733 CI, closed



Golden Heart Utilities, Inc. v. Regulatory Commission of Alaska

Golden Heart Utilities, Inc. listed numerous points on appeal of the Commission's decisions in its last rate case. Case: 4FA-02-1444 CI, pending



Manager of Alaska Power & Telephone Co. (AP&T), Wendell Hewes, works in the Wrangell Central Office. Photo is courtesy of AP&T.

9TH CIRCUIT COURT OF APPEALS

ACS of Fairbanks, Inc. et al. v. Regulatory Commission of Alaska and GCI Communication Corporation

These consolidated appeals arose from Alaska Communications Systems, Inc.'s (ACS) original action in federal court seeking injunctive and declaratory relief from the Regulatory Commission of Alaska's decisions approving the results of arbitration in GCI Communication Corporation's request for interconnection under the Telecommunications Act of 1996. The issue in Case No. 01-35344 is whether, by conducting interconnection proceedings under the Telecommunications Act, the Commission has waived the state's 11th amendment immunity from suit in federal court. In the cross-appeal, Case No. 01-35375, ACS appealed the federal district court's grant of a stay of the entire action pending the 9th Circuit's decision on the 11th amendment issue. Cases: 01-35344, 01-35375, pending

STATUTES

The Alaska Legislature reorganized and renamed the Commission to the Regulatory Commission of Alaska (RCA) in 1999 as the state agency responsible for regulation of utilities and pipeline carriers. The RCA exists as an independent agency within the Department of Community and Economic Development under AS 42.04.010. Other provisions in the same chapter of AS 42.04 establish the RCA's structure, provide for the appointment and terms of commissioners and the employment of staff, specify powers and duties of the chair, and describe decision-making procedures for the RCA. The RCA has authority to investigate, hold hearings, prescribe systems of accounts, require the filing of reports, adopt regulations, and take other lawful actions necessary to accomplish the stated purposes of the Alaska Public Utilities Regulatory Act, AS 42.05, and the Pipeline Act, AS 42.06. The RCA's principal regulatory functions are certification and economic regulation (3 AAC 48.820(43)), which includes regulation of rates, quality of service, management practices, and consumer complaints.

The RCA has jurisdiction over public utilities providing electric, telecommunications (interexchange, local exchange, and cable television), steam heat, water and wastewater, natural gas, and refuse.¹ The term "public utility" is defined in AS 42.05.990(4) to mean, in general, an entity that provides any of these utility services to ten or more customers for compensation, or that sells wholesale service to a utility serving ten or more customers.

However, AS 42.05.711 provides statutory exemptions from economic regulation and, in some cases from the certification requirement, for certain kinds of utilities.

- (1) Under AS 42.05.711(b), public utilities owned and operated by a political subdivision of the state are exempt from economic regulation, unless the political subdivision elects to be regulated by the RCA. However, if any utility of a political subdivision is in competition with any other utility, then all that political subdivision's utilities are regulated.²
- (2) Under AS 42.05.711(e), electric and telephone utilities with gross revenues less than \$50,000 are exempt from both certification requirements and economic regulation, unless 25-percent of their customers petition for regulation.
- (3) Under AS 42.05.711(i), refuse utilities with annual gross revenues of \$300,000 or less are exempt from economic regulation, unless customers that pay 25-percent of the utility's gross revenues petition the RCA for regulation under AS 42.05.712(h).
- (4) Under AS 42.05.711(k), cable television utilities are exempt from economic regulation, unless subscribers petition the RCA for regulation under the procedures in AS 42.05.712.
- (5) Under AS 42.05.711(f), (g), and (h), customers of various kinds of utilities may vote for exemption from regulation by the RCA under the procedures in AS 42.05.712.

¹ Under AS 42.05.990(4)(E), "public utility" also includes a petroleum or petroleum product distributor "when the consumer has no alternative in the choice of supplier of an alternative product or service at an equal or lesser price;..." No entities meeting this definition of "public utility" are currently certificated or regulated by the Commission.

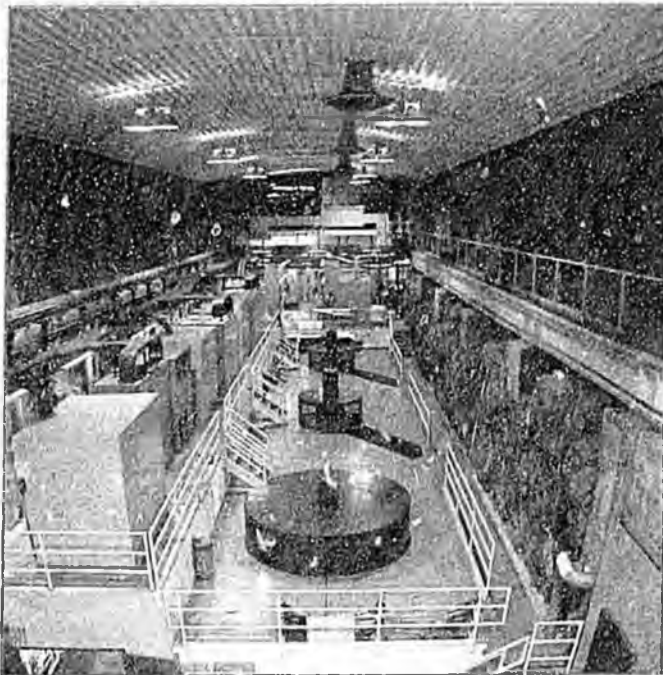
² The utilities of the Municipality of Anchorage are the only utilities operated by a political subdivision that are currently subject to economic regulation by the Commission.



(6) The RCA also has discretion under AS 42.05.711(d) to exempt a utility from all or a portion of AS 42.05 if it determines the exemption is in the public interest. The Alaska Public Utilities Commission and the RCA have exercised discretion under this statute to exempt some utilities particularly small water and competing refuse utilities from economic regulation requirements.

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Alaska Statutes 42.05.221 requires a public utility to obtain a certificate of public convenience and necessity from the Regulatory Commission of Alaska (RCA) before commencing service to the public. A certificate describes the nature and extent of authority granted to the utility, including, if appropriate, a description of the authorized service area and the scope of operations of the utility. Before issuing a certificate, the RCA must, under AS 42.05.241, find that the applicant is fit, willing, and able to provide the service and that the service is required for the convenience and necessity of the public. Alaska Statutes 42.05.241 also authorizes the RCA to eliminate undesirable duplication of utility service. The RCA has authority under AS 42.05.271 to amend, modify, revoke, or suspend certificates.



Snettisham Powerplant produces 80 percent of Juneau's electricity. Photo is courtesy of Alaska Electric Light & Power Company.

RATE REGULATIONS

The Regulatory Commission of Alaska (RCA) is responsible for making or requiring just, fair, and reasonable rates, classifications, regulations, practices, services, and facilities for public utilities. The rate review process, prescribed by AS 42.05.361-42.05.441, most often begins with a tariff filing by a utility. Within 45-days, the RCA approves the filing or suspends it for further investigation. The RCA may permit an interim and refundable rate increase. If after investigation, the RCA finds the proposed rate or term of service unjust and unreasonable, the RCA will determine a just and reasonable rate or term of service.

The RCA also works with the Alaska Energy Authority in administering the Power Cost Equalization program. The RCA determines the eligibility of electric utilities and the kilowatt-hour amount paid under AS 42.45.100-42.45.190.

PIPELINE CARRIERS

The Regulatory Commission of Alaska (RCA) also regulates the intrastate transportation services of oil and gas pipelines in Alaska. Under AS 42.06.240-42.06.305, the RCA grants certificates of public convenience and necessity for pipeline transportation service, and for construction or operation of any pipeline facilities in the state. The RCA has authority under AS 42.06.350-42.06.420 to review and determine intrastate service rates and charges of pipelines in the state.

The RCA is also authorized under AS 31.15.010-31.15.050 to determine if unjust and unreasonable discrimination has occurred in the sale of oil offered for purchase within Alaska.

ALASKA ADMINISTRATIVE CODE

As authorized under AS 42.05.151 and other statutory provisions, the Regulatory Commission of Alaska has adopted regulations to carry out its statutory duties. The Commission's regulations are set out in the Alaska Administrative Code at Title 3, Part 5, Chapter 47 (Regulatory Cost Charge); Chapter 48 (Practice and Procedure); Chapter 49 (Deregulation); Chapter 50 (Energy Conservation); Chapter 51 (Telecommunications Relay Service); Chapter 52 (Operation of Public Utilities); and Chapter 53 (Telecommunications).

PHOTO CREDITS

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***Telecommunications Policy Study and
Assessment for the State of Alaska:***



October 2002

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	<u>14</u>
INTRODUCTION.....	<u>55</u>
PURPOSE OF THE TELECOMMUNICATIONS STUDY	<u>55</u>
TELECOMMUNICATION SERVICES AND PLAYERS	<u>88</u>
CURRENT STATE OF THE INDUSTRY.....	<u>88</u>
<i>Local Telephone Service</i>	<u>99</u>
<i>Long Distance Services</i>	<u>1040</u>
<i>Internet Service</i>	<u>1040</u>
<i>Mobile Wireless</i>	<u>1040</u>
<i>Narrowband Internet Service</i>	<u>1144</u>
<i>Broadband Internet Service</i>	<u>1144</u>
COMMERCIAL CARRIERS.....	<u>1444</u>
<i>ACS and Other ILECs</i>	<u>1444</u>
<i>CLECs</i>	<u>1616</u>
<i>Wireline Long Distance Companies</i>	<u>1616</u>
<i>Mobile Wireless Service Providers</i>	<u>1747</u>
<i>DBS</i>	<u>1747</u>
CONVERGENCE.....	<u>1747</u>
<i>Increasing Use of Standard Protocols</i>	<u>1818</u>
<i>Public Policy and the Formation of New Industries</i>	<u>1818</u>
<i>Digital Voice Over Multiple Access Media</i>	<u>1949</u>
<i>Implications of Intermodal Competition</i>	<u>2124</u>
<i>Technological Change and Product Development</i>	<u>2222</u>
<i>Applications in Alaska</i>	<u>2525</u>
PUBLIC POLICY PLAYERS IN ALASKA.....	<u>2626</u>
<i>Executive Branch</i>	<u>2727</u>
<i>Governor's Office in Washington, DC</i>	<u>2828</u>
<i>Legislature</i>	<u>2929</u>
<i>State Regulators</i>	<u>2929</u>
ALASKA TELECOMMUNICATIONS ISSUES AND REGULATION.....	<u>3134</u>
NATURAL CHALLENGES FACING TELECOMMUNICATIONS CARRIERS IN ALASKA.....	<u>3134</u>
<i>Population, Industry, Infrastructure</i>	<u>3134</u>
HISTORY AND LANDSCAPE OF TELECOMMUNICATIONS IN ALASKA	<u>3232</u>
<i>Early Deployments</i>	<u>3232</u>
<i>The Emergence of Competition in Alaska</i>	<u>3232</u>
<i>Regulatory Questions</i>	<u>3434</u>
KEY PROVISIONS OF 1996 TELECOMMUNICATIONS ACT RELEVANT TO ALASKA.....	<u>3535</u>
<i>Removing Barriers to Entry into Local Exchange Service</i>	<u>3535</u>
<i>Universal Service (USF)</i>	<u>3636</u>
STATE ROLE IN PROMOTING COST EFFECTIVE DELIVERY OF TELECOMMUNICATIONS SERVICES IN ALASKA CONSISTENT WITH POLICY OBJECTIVES	<u>3939</u>
UNIVERSAL SERVICE OF BASIC AND ADVANCED TELECOMMUNICATIONS SERVICES	<u>3939</u>
<i>Federal Support to Alaska</i>	<u>3939</u>
<i>Shared Goals, Expanded Scope</i>	<u>4242</u>
APPROPRIATE GOVERNMENT ROLE TO ENSURE COMPETITIVE NEUTRALITY AND CONSISTENT SERVICE DELIVERY	<u>4242</u>

<i>Competitive Neutrality – Competing Definitions</i>	4242
<i>Cooperative Solutions</i>	4343
<i>Role of Government – State and Federal</i>	4444
APPROPRIATE LEVELS OF REGULATION TO ENCOURAGE INDUSTRY TO WORK TOWARD POLICY GOALS	
.....	4545
<i>Interpretation of the 1996 Telecommunications Act</i>	4545
<i>The Road Ahead</i>	4646
<i>UNEs, TELRIC and Interconnection</i>	4747
<i>Network Access and Investment Incentives</i>	4848
<i>Different Approaches to Deregulation</i>	494950
INNOVATIVE AND COST EFFECTIVE DEPLOYMENT AND USE OF ADVANCED TELECOMMUNICATIONS	
INFRASTRUCTURE.....	5050
<i>Technology, Geography and Organization</i>	5151
<i>Process and Progress</i>	515152
<i>Community and Cooperative Solutions</i>	525253
<i>Engage the FCC on Universal Service and Other Telecom Issues of Importance to Alaska</i>	
.....	535354
<i>Innovative Policy for Telecommunications Across All Federal Agencies</i>	545455
<i>Competitive Carrier Infrastructure Build-Outs</i>	555556
<i>UNE Pricing Issues</i>	5656
CONSISTENT ACTIONS BY LEGISLATURE, REGULATORY AGENCIES, AND EXECUTIVE BRANCHES OF	
GOVERNMENT TO PROMOTE UNIVERSAL SERVICE, INFRASTRUCTURE DEVELOPMENT, COMPETITIVE	
NEUTRALITY, AND APPROPRIATE LEVELS OF REGULATION.....	585859
<i>Deregulation vs. Managed Competition</i>	585859
<i>Federal Support for Telecommunications in Alaska</i>	595960
<i>Role of the RCA</i>	595960
IMPLEMENTATION OF THE TELECOMMUNICATIONS ACT OF 1996 IN A MANNER THAT ADDRESSES	
ALASKA'S UNIQUE CHARACTERISTICS.....	606061
<i>Recap of the 1996 Telecommunications Act</i>	606061
<i>Alaska Legislature</i>	616162
<i>Regulatory Agency – APUC, RCA</i>	616163
<i>Alaska Executive Branch</i>	626263
<i>Congressional Delegation</i>	626264
GENERAL DISCUSSION.....	646465
<i>Transition to Deregulation</i>	656566
<i>Telecommunications and Alaska</i>	666667
APPENDIX I. – TELECOMMUNICATIONS CASE STUDIES.....	676768
COLORADO.....	686869
CHICAGO CIVICNET.....	696970
ALBERTA SUPERNET.....	696970
SASKATCHEWAN COMMUNITYNET.....	707071
EGOVERNMENT INITIATIVES.....	707071
APPENDIX II. – DEREGULATION IN THE AIRLINE INDUSTRY AND APPLICABILITY TO	
TELECOMMUNICATIONS.....	727273
REFERENCES.....	757576
LIST OF ABBREVIATIONS.....	797980
SOURCES INTERVIEWED.....	808084
SAMPLE QUESTIONS.....	818182