

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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June 25, 2012

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY,  
AND ECONOMIC DEVELOPMENT  
REGULATORY COMMISSION OF ALASKA  
FY 11 ANNUAL REPORT

May 23, 2012

Audit Control Number  
08-30067-12

We have conducted an audit of the Regulatory Commission of Alaska (RCA) annual report in accordance with AS 24.20.271(10). RCA is required to annually report the performance measures it has adopted as well as its compliance with statutory timelines imposed on its activities. The purpose of the audit is to report on the accuracy of RCA's FY 11 annual report.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA  
Legislative Auditor

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## OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes, an audit was performed on the information pertaining to statutory timelines, extensions, and performance measures in the Regulatory Commission of Alaska's (RCA or commission) FY 11 annual report.

### Objective

The objective of this audit was to determine if the commission's FY 11 annual report accurately presents information regarding the timeline requirements of AS 42.05.175(a)-(e), commission timeline extensions implemented under AS 42.05.175(f), and the commission's adopted performance measures.

### Scope

We analyzed the commission's FY 11 annual report to determine the data accuracy for the reporting of:

- Utility, pipeline, and regulatory dockets;
- Tariff filings;
- Timeline extensions; and
- RCA adopted performance measures.

We examined dockets and tariffs that were in open status at any point during FY 11 which consisted of 227 utility dockets, 55 pipeline dockets, 16 regulatory dockets, and 475 tariff filings.

### Methodology

Four separate representative samples<sup>1</sup> of dockets and tariff filings were evaluated to determine the accuracy of the docket and tariff data presented in the commission's FY 11 annual report. The samples were evaluated on a confidence level of 90 percent with a precision of +/-10 percent. The samples were selected using a random number generator. Selected case management system data regarding the dockets and tariff filings was compared to the commission's supporting records.

All 24 timeline extensions reported in the commission's FY 11 annual report were evaluated. The timeline extension data reported was compared to the supporting records.

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<sup>1</sup>The four separate samples consisted of: 25 utility dockets, six pipeline dockets, five regulatory dockets, and 25 tariff filings.

Performance measures reported in the commission's FY 11 operating budget and annual report were evaluated for accuracy. The evaluation included:

- Examining the testing results of the case management system's docket, tariff filing, and timeline extension data to determine performance measure accuracy.
- Analyzing the commission's power cost equalization (PCE) documentation – including PCE annual reports, PCE fuel reports, and PCE response letters – to confirm the PCE performance measure's accuracy.
- Examining travel authorizations and program materials to confirm the customer outreach performance measure was accurately reported.
- Examining the commission's consumer fact sheets to verify the performance measure was accurately reported.
- Analyzing the commission's FY 11 staffing documentation and state accounting records to confirm the staffing performance measure was accurately calculated.

During our fieldwork, we also:

- Interviewed RCA management to gain an understanding of case management system data and the information presented in the FY 11 annual report.
- Compared the performance measures in the FY 11 operating budget to the measures presented in the annual report to determine the completeness of the reported measures.
- Examined Alaska Statutes specific to RCA to determine statutory timeline and reporting requirements.
- Assessed control procedures and tested the case management system data to determine the accuracy of the data presented in the annual report

## ORGANIZATION AND FUNCTION

The Regulatory Commission of Alaska (RCA or commission) is responsible for ensuring safe, adequate, and fair public utility and pipeline services. This is done by allowing regulated entities to charge users rates and provide services in a manner consistent with both the public and regulated entities' interests. The RCA has the authority to adopt regulations and to hold formal, quasi-judicial hearings to accomplish these purposes.

The commission regulates pipeline, telephone, electric, natural gas, water, sewer, refuse, cable TV, and heat services through a certification process. A public utility or pipeline company must obtain a certificate of public convenience and necessity which describes the authorized service area and scope of operations. A certificate is issued when the commission formally finds the applicant to be fit, willing, and able to provide the service requested.

In addition to the certification process, the commission may also economically regulate the rates, classifications, rules, regulations, practices, services, and facilities of public utilities and pipeline companies covered by statute. The commission determines whether the rates being charged or proposed by regulated entities are fair, just, and reasonable.

All economically regulated utilities and pipeline carriers are required to maintain a tariff and operate under the terms of the tariff. Tariffs are the written terms, conditions, rules, and rates governing a utility's conduct in providing public utility services. The commission reviews all initial tariffs and tariff revisions.

The commission records in dockets the activities related to certifying and regulating pipeline and public utilities, formal complaint resolutions, and regulation adoptions. These dockets are categorized as being: utility, pipeline, and regulatory.

As shown in Exhibit 1, RCA consists of five commissioners. The commissioners are appointed by the governor, confirmed by the legislature for six-year terms, and must either be a member of the Alaska Bar Association or have a degree in engineering, finance, economics, accounting, business administration, or public administration from an accredited university. The commission's staff includes administrative law judges, engineers, financial analysts, consumer protection officers, paralegals as well as administrative and support staff. The commission also receives legal advice from counsel assigned to it by the Department of Law.

**Exhibit 1**

<b>Regulatory Commission of Alaska Members</b>
T.W. Patch, Chair Term Expires March 2016
Robert Pickett Term Expires March 2014
Kate Giard Term Expires March 2013
Paul Lisankie Term expires March 2015
Jan Wilson Term expires March 2018

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## **BACKGROUND INFORMATION**

Alaska Statute 42.05.175(a)-(e) provides statutory timelines for tariff filings, and regulatory and utility dockets. Alaska Statute 42.05.175(i) addresses timelines for adjudicated utility docket matters that are not already in federal or state law. Exhibit 2 (following page) summarizes AS 42.05.175 timeline requirements.

RCA is required to publish an annual report about its activities and compliance with statutory timelines.

Alaska Statute 42.05.211 mandates that RCA publish an annual report concerning public utility services and performance measures, specifying:

*The commission shall, by November 15 of each year, publish an annual report reviewing its activities during the previous fiscal year and notify the legislature that the report is available. The report must address the regulation of public utility service in the state as of June 30 and must contain details about the commission's compliance with the requirements of AS 42.05.175(a)-(e), with the timeline extensions made by the commission under AS 42.05.175(f), and with other performance measures established by the commission.*

Similarly, AS 42.06.220 mandates that RCA annually report on pipeline activities and performance measures stating:

*The commission shall, by November 15 of each year, publish an annual report reviewing its activities during the previous fiscal year and notify the legislature that the report is available. The report must address the regulation of oil and gas pipeline facilities in the state as of June 30 and must contain details about the commission's compliance with performance measures reported by the commission.*

To address the statutory report requirements, the commission publishes its utility and pipeline activities in one annual report. Performance measures demonstrating compliance with statutory timelines are established annually by the commission and included in the annual report.



## Exhibit 2

### Alaska Statute 42.05.175 Timelines

- (a) *The commission shall issue a final order not later than 180 days after a complete application is filed for an application*
  - (1) *for a certificate of public convenience and necessity;*
  - (2) *to amend a certificate of public convenience and necessity;*
  - (3) *to transfer a certificate of public convenience and necessity; and*
  - (4) *to acquire a controlling interest in a certificated public utility.*
- (b) *... The commission shall issue a final order not later than 270 days after a complete tariff filing is made for a tariff filing that does not change the utility's revenue requirement or rate design.*
- (c) *... The commission shall issue a final order not later than 450 days after a complete tariff filing is made for a tariff filing that changes the utility's revenue requirement or rate design.*
- (d) *The commission shall issue a final order not later than 365 days after a complete formal complaint is filed against a utility or, when the commission initiates a formal investigation of a utility without the filing of a complete formal complaint, not later than 365 days after the order initiating the formal investigation is issued.*
- (e) *The commission shall issue a final order in a rule-making proceeding not later than 730 days after a complete petition for adoption, amendment, or repeal of a regulation...*
- (f) *The commission may extend a timeline required under this section if all parties of record consent to the extension or if, for one time only, before the timeline expires, the*
  - (1) *Commission reasonably finds that good cause exists to extend the timeline;*
  - (2) *Commission issues a written order extending the timeline and setting out its findings regarding good cause; and*
  - (3) *Extension of time is 90 days or less.*
- (i) *In adjudicated docket matters that come before the commission under state law or federal law and are not subject to a timeline under federal law or (a) - (e) of this section, the commission shall issue a final order not later than 180 days after the filing of an initiating petition. If the matter is commenced on the commission's own motion, the commission shall issue a final order not later than 365 days after the issuance of an order opening the docket.*

### RCA management uses performance measures to assess effectiveness.

According to the commission's FY 11 annual report, RCA's mission is to assure "*that viable utility and pipeline service is provided at just and reasonable rates to consumers in Alaska.*" RCA's goal is to accomplish its mission by assessing regulatory issues and providing determinations in a timely manner. RCA management annually establishes measures to assess how effective the commission is in meeting the goal of timely decisions. Exhibit 3 (following page) lists the commission's FY 11 performance measures.



### Exhibit 3

<b>RCA FY 11 Performance Measures by Type</b>	
<p><b>Fair Treatment and Just and Reasonable Rates</b></p> <p><b>Target 1:</b> 100 percent of tariff matters are reviewed and processed within regulatory timelines.</p> <p><b>Target 2:</b> 95 percent of PCE [power cost equalization] eligible utilities are in compliance by the end of each fiscal year.</p> <p><b>Target 3:</b> Final commission decisions in adjudicatory and rulemaking dockets are reviewed by an assistant attorney general and issued within statutory deadlines.</p> <p><b>Education of Consumers and Utility/Pipeline Carriers</b></p> <p><b>Target 1:</b> Participate annually in at least six outreach opportunities to customers of regulated utilities.</p> <p><b>Target 2:</b> Develop and/or modify at least five consumer fact sheets regarding utility rates and services.</p> <p><b>Target 3:</b> Provide two training sessions annually on web filing and two training sessions on applications and general filing requirements.</p>	<p><b>Complaint Resolution</b></p> <p><b>Target 1:</b> Issue written disposition on complaints received by mail within 45 days.</p> <p><b>Target 2:</b> Issue disposition of complaints filed by walk-ins, telephone, email, and fax within 30 days.</p> <p><b>Review and Audit of Filed Documents</b></p> <p><b>Target 1:</b> Issue responsive letter order within 21 days of a non-regulated PCE utility filing a fuel cost change.</p> <p><b>Target 2:</b> Complete audit of PCE Utility Annual Reports<sup>2</sup> each year.</p> <p><b>Target 3:</b> 100 percent of professional/technical advisory staff positions are filled, allowing timely staff reviews of filings and presentations of issues to commissioners.</p> <p><b>Target 4:</b> Less than 10 percent of statutory timelines are extended by the commission on its own motion.</p>

Source: RCA FY 11 Annual Report

#### RCA management evaluates the case management system.

Performance measures are reported based on data input and maintained in the commission's case management system. During FY 11, RCA management hired a consultant to analyze the system. Some of the significant deficiencies reported by the consultant include:

- Data inconsistencies and processing inefficiencies in the system;

<sup>2</sup>PCE Utility Annual Reports refers to the PCE utilities' annual updates that are filed with the commission to document changes made to rates.

- A lack of quality control review for data entered into the system;
- User frustration due to the lack of system training; and
- Inadequate documentation of system behaviors (procedures).

## REPORT CONCLUSIONS

The purpose of this audit is to report on the accuracy of the Regulatory Commission of Alaska's (RCA or commission) FY 11 annual report in accordance with AS 24.20.271(10). The audit addresses the accuracy of statutory timeline, timeline extension, and performance measure data. This audit does not conclude on the effectiveness of RCA's decisions or its measures.

We conclude that the commission accurately reported on regulatory docket timelines and statutory timeline extensions. However, the data on tariff filings, utility and pipeline dockets, and performance measures is unreliable or not reported accurately. Detailed conclusions are discussed below.

RCA's FY 11 annual report data for regulatory dockets and timeline extensions was accurately reported.

The analysis of regulatory docket and timeline extension data confirmed that the commission accurately reported its compliance with the statutory timeline requirements in its FY 11 annual report for regulatory dockets and timeline extensions.

The data for tariff filings, and utility and pipeline dockets was inaccurately reported.

Incorrect or incomplete data entered into the case management system resulted in inaccuracies in tariff filing, and utility and pipeline docket data reported in the FY 11 annual report. Of the 25 tariff filings examined, 52 percent contained data errors. Seventeen percent of the pipeline dockets and eight percent of the utility dockets also contained data errors.<sup>3</sup> The data for tariff filings, and utility and pipeline dockets is unreliable based on the inaccuracy of the underlying data in the case management system. This finding is further discussed in Recommendation No. 1.

Not all performance measures were accurately reported.

In the FY 09 RCA annual report, the commission accounted for only three of its nine approved performance measures. In FY 11, the commission reported on all 12 of the performance measures in its annual report.<sup>4</sup> However, the results of five measures were either inaccurately reported or the underlying case management system data was deemed unreliable as discussed in the previous conclusion. Exhibit 4 (following page) provides

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<sup>3</sup>Based on a 90 percent confidence level, the projected error rates derived from test work exceeded the assigned acceptable tolerable error rate of 10 percent in the sampling analysis program. Statistical analysis resulted in projected error rates of 49 percent for pipeline dockets and 19 percent for utility dockets.

<sup>4</sup>Alaska Statutes 42.05.211 and 42.06.220 require the commission to report on its performance measures annually.

details on the five measures that were unreliable and inaccurately reported. This finding is further discussed in Recommendation No. 1.

**Exhibit 4**

**Details of RCA Performance Measures Inaccurately Reported**

Target 1 of the “*Fair Treatment & Just and Reasonable Rates*” section: *100 percent of tariff matters are reviewed and processed within regulatory deadlines.*

Reported status: *99.58 percent of the tariff filings made in FY 2011 were reviewed and processed within regulatory timelines (473 of 475).*

Audit Conclusion: Of the 25 tariff filings examined, 52 percent contained data errors. The reported status on this performance measure is unreliable based on the inaccuracy of the underlying data in the case management system.

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Target 3 of the “*Fair Treatment & Just and Reasonable Rates*” section: *Final Commission decisions in adjudicatory and rulemaking dockets are reviewed by an assistant attorney general and issued within statutory deadlines.*

Reported status: *100 percent of Commission final orders in adjudicatory/rulemaking dockets were reviewed by an assistant attorney general and issued by the statutory deadline in FY 2011 (114 of 114).*

Audit Conclusion: Seventeen percent of the pipeline dockets and eight percent of the utility dockets examined contained data errors. The reported status on this performance measure is unreliable based on the inaccuracy of the underlying data in the case management system.

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Target 2 of the “*Education of Consumers & Utility/Pipeline Carriers*” section: *Develop and/or modify at least five consumer fact sheets regarding utility rates and services.*

Reported status: *The Commission developed or updated eight consumer fact sheets in FY 2011.*

Audit Conclusion: An analysis revealed that six, not eight, consumer fact sheets were developed or updated in FY 11.

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Target 1 of the “*Complaint Resolution*” section: *Issue written disposition on complaints received by mail within 45 days.*

Reported status: *85.2 percent of the written dispositions for complaints received by mail were completed within 45 days in FY 2011 (23 of 27).*

Audit Conclusion: An analysis of six of the 27 mailed complaints received indicated that 50 percent of mailed complaints had information regarding the complaint incorrectly entered into the case management system. The reported status on this performance measure is unreliable based on the inaccuracy of the underlying data in the case management system.

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*(Continued on next page)*

**Exhibit 4 (continued)**

<b>Details of RCA Performance Measures Inaccurately Reported</b>
<p>Target 2 of the “<i>Review and Audit of Filed Documents</i>” section: <i>Complete audit of PCE Utility Annual Reports each year.</i></p> <p>Reported status: <i>9.6 percent of filed PCE Utility Annual Reports were reviewed in FY 2011 (5 of 52), a 33.9 percent decrease from FY 2010.</i></p> <p>Audit Conclusion: An examination of the five PCE Utility Annual Reports listed as reviewed in FY 11 revealed that two of the five reviewed annual reports were filed in FY 10, not FY 11.</p>

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## FINDINGS AND RECOMMENDATIONS

In 2010, the Division of Legislative Audit performed an audit of the FY 09 Regulatory Commission of Alaska (RCA or commission) annual report<sup>5</sup> and made the following two recommendations to RCA management regarding its annual report and case management system:

1. *The RCA management should implement procedures to ensure information in the annual report is accurate, complete, and in sufficient detail.*
2. *The RCA management should implement and enforce written procedures to ensure the case management system data is accurate, consistent, and complete.*

Errors in the annual report data were primarily related to inaccurate and incomplete data entered into the case management system. Data issues stemmed from not having comprehensive written procedures in place to ensure accurate data was entered into the system in a consistent manner, and not having quality control mechanisms to ensure that the data was accurate, consistent, and complete.

The findings have been partially resolved. The commission included and reported on, in sufficient detail, all the performance measures in the FY 11 annual report, and retained the supporting records; however data issues persist. Test work showed there were no written procedures for control over input and maintenance of case management system data in FY 11. Lack of adequate controls resulted in unreliable and inaccurate data being reported in the commission's FY 11 annual report. The deficiencies in the case management data used for the annual report are reiterated in Recommendation No. 1.

### Recommendation No. 1

The RCA chair should implement and enforce written procedures to ensure that case management system data is accurate, consistent, and complete.

The commission continues to have unreliable data in the annual report. The reliability issues have resulted from inaccurate and incomplete case management system data. The commission primarily relies on case management system data for compiling the annual report. Audit test work performed to reconcile annual report data to the source files showed that dates and other timeline data were either not entered or entered incorrectly into the case management system. Over 50 percent of the tariff filings, 17 percent of the pipeline dockets, and eight percent of the utility dockets examined had incorrect or incomplete data.

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<sup>5</sup>Department of Commerce, Community, and Economic Development, Regulatory of Alaska, FY 09 Annual Report, Audit Control Number 08-30057-10.



Additionally, 50 percent of the mailed complaints examined also had incorrect data entered into the case management system.

The data errors can be attributed to a lack of: written guidance, adequate training, and ongoing quality reviews necessary to ensure case management system data is entered and maintained accurately, consistently, and completely. According to RCA management, procedures were drafted and implemented in April of FY 12.

It is RCA management's responsibility to ensure that the information collected and reported is accurate, consistent, and complete. Inaccurate data in the commission's annual report provides a misleading picture to the legislature, industry, and the public regarding the commission's efficiency and effectiveness in performing its functions. Accordingly, we recommend the commission chair take steps to implement and enforce written procedures that improve the data quality in the case management system. Improvements will result in greater accuracy and completeness of the annual report.



STATE OF ALASKA  
DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT

Office of the Commissioner

*Sean Parnell, Governor*  
*Susan Bell, Commissioner*

July 18, 2012

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JUL 20 2012

LEGISLATIVE AUDIT

Ms. Kris Curtis, CPA, CISA  
Legislative Auditor  
Alaska State Legislature  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

Re: Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska, FY 11 Annual Report, May 24, 2012, Audit Control Number 08-30067-12

Dear Ms. Curtis:

Thank you for the opportunity to respond to preliminary audit report and recommendation issued to the Regulatory Commission of Alaska (RCA) referenced above.

Recommendation No. 1

The RCA chair should implement and enforce written procedures to ensure that case management system data is accurate, consistent, and complete.

The department concurs with this recommendation and the importance of accurate and consistent data entry for reporting. The RCA has noted that written guidance has been provided to staff on the case management system data entry and quality control measures. The results of which will be seen in next audit cycle.

Again, thank you for an opportunity to respond to the auditor's recommendation. If you have any additional questions, please contact me at 465-2500.

Regards,

Handwritten signature of Susan K. Bell in cursive.

Susan K. Bell  
Commissioner

cc: JoEllen Hanrahan, Director ASD, DCCED  
T.W. Patch, Chair, RCA, DCCED

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STATE OF ALASKA  
DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT

*Sean Parnell, Governor*  
*Susan K. Bell, Commissioner*  
*T.W. Patch, Chairman*

**Regulatory Commission of Alaska**

July 17, 2012

Ms. Kris Curtis, CPA, CISA  
Legislative Auditor  
Division of Legislative Audit  
Alaska State Legislature  
PO Box 113300  
Juneau, AK 99811-3300

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JUL 17 2012

LEGISLATIVE AUDIT

Dear Ms. Curtis:

Thank you for the opportunity to respond to the preliminary audit report. The RCA appreciates the conclusions that it accurately reported on regulatory docket timelines and statutory timeline extensions. This reflects an improvement over the previous annual report audit.

You requested a written response to the report. You specifically asked for a statement of whether the RCA agrees or disagrees with the recommendation in your report and the methods used or that the RCA plans to use to implement the recommendation. I provide the RCA's response.

**Recommendation No. 1:** The RCA chair should implement and enforce written procedures to ensure that case management system data is accurate, consistent and complete.

**Commission Response:** In general the RCA agrees with the recommendation. The report found that errors in the annual report data were primarily related to inaccurate and incomplete data entered into the case management system. In response to this finding and the recommendation, the RCA reports that in fiscal year 2012 it provided guidance to staff on case management data entry and quality control in the form of written procedures.

The procedures were drafted to provide step-by-step screen shot instructions to staff that work in the largest data input sections; Records and Filing and Tariffs. Quality control measures have also been implemented: Commission paralegals and tariff analysts that have experience in applying and entering accurate statutory timeline data and timeline extension data are now required to review initial data input. The RCA also implemented new electronic filing types and electronic document categories during fiscal year 2012. This change should enable the RCA to "scrub" case management data on a discovered data error basis and as data is corrected on a going-forward basis the system's search capability should be improved.

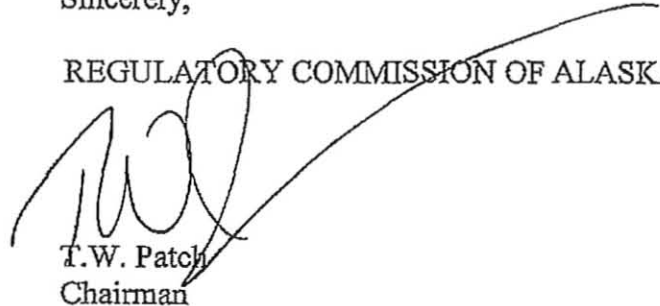
Procedures are also now being drafted upon which training can be accomplished to promote consistent data entry into the case management system by consumer protection and information staff (i.e., informal complaint data fields), advisory staff (i.e., staff memorandums) and other support staff (i.e., PCE statistics, letter orders, general correspondence, public notices, agendas, etc.). While the material entered into the case management system by these staff members may not impact the underlying data in the case management system that is reported in the RCA's annual report, it is important to ensure the overall accuracy of the case management system.

The drafting, implementation, and enforcement of written procedures to enhance data accuracy began in fiscal year 2012 and continues in fiscal year 2013. Although the matter is of highest importance and will receive my continued attention, any accurate estimate of a scheduled completion date is difficult.

Thank you for your time and effort in your audit of the Regulatory Commission of Alaska's annual report.

Sincerely,

REGULATORY COMMISSION OF ALASKA

A handwritten signature in black ink, appearing to read 'T.W. Patch', is written over the typed name and title. A long, sweeping horizontal line extends from the end of the signature across the right side of the page.

T.W. Patch  
Chairman