

December 23, 1998

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Titles 24 and 44 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT
ALASKA PUBLIC UTILITIES COMMISSION

December 23, 1998

Audit Control Number

08-1459-99

This review examined the activities of the Alaska Public Utilities Commission to determine if there is a demonstrated public need for its continued existence and if the commission has been operating in an efficient and effective manner.

The audit was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section. Audit results may be found in the Report Conclusions, Findings and Recommendations, and in the Analysis of Public Need sections of this report.

Pat Davidson, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Titles 24 and 44 of the Alaska Statutes, we have examined the activities of the Alaska Public Utilities Commission (hereinafter referred to as APUC or the commission) to determine if there is a demonstrated public need for its continued existence and if the commission has operated in an efficient and effective manner.

Legislative intent requires consideration of this report during the legislative oversight hearings to determine whether the commission should be extended. The law now specifies that the commission will terminate June 30, 1999 and have one year from that date to conclude its affairs.

Discussion of the objectives, scope, and methodology of our review follows.

Objectives

APUC was created to protect and promote the public interest by certificating and economically regulating qualified public utilities and pipeline carriers. It oversees the availability, affordability, and quality of utility services throughout Alaska. The primary objective of this audit was to determine whether the public need for this commission continues to exist.

A secondary objective was to review the commission's major functions, such as certification of utilities, tariff actions, and investigations and complaint follow-up for effectiveness in meeting the public need. A third objective was to evaluate these functions in particular and the commission's operations in general, for economy and efficiency of operation.

Our analysis of public need, findings and recommendations and our conclusions have been summarized in the applicable sections of this report.

Scope and Methodology

Alaska Statute 44.66.050 requires the factors outlined in the Analysis of Public Need section of this report be evaluated as part of this audit in order to determine need for the commission's continued existence. To address these areas, we analyzed the need for regulation of the various industries; considered the regulatory status and trends nationwide; interviewed commissioners and staff members; reviewed applicable statutes and regulations; contacted the acting ombudsman, attorney general, Alaska Human Rights Commission, and Equal Employment Opportunity offices; analyzed consumer complaints against utilities filed with the commission; and reviewed decisions made by the commission.

The effectiveness and efficiency of APUC was addressed through the above procedures, by requesting input from a random sample of 43 of the 127 currently regulated utilities, and by reviewing individual files.

Our review of decisions, complaints, tariff actions, hearings, investigations and certifications was performed primarily on a sample of these items drawn from FY 98 activities. These were selected on a judgmental basis in order to allow us to focus on certain activities and industries.

ORGANIZATION AND FUNCTION

Public utility regulation in Alaska has evolved substantially since the creation of the Public Services Commission (PSC) in 1959. That three-member body had jurisdiction over electric power, heat, water, gas, oil or other petroleum products (except by pipeline), telephone or telegraph communications, and community sewer services. In 1960, PSC gained responsibility for transportation utilities which it regulated until the creation of the Alaska Transportation Commission in 1966.

PSC was replaced by a three-member Alaska Public Utilities Commission in 1970. Regulated industries included: electric; telecommunications; water; steam; sewer; gas and petroleum when no competition existed. A 1973 amendment added garbage, refuse, trash and other waste to the list. Amendments passed in 1980 provided exemptions from economic regulation for cable television services and other utilities with low annual gross revenues as well as establishing a provision allowing economic deregulation by consumer vote for certain utility groups. With abolition of the Alaska Pipeline Commission in 1981, jurisdiction over pipelines passed to APUC.

In addition to jurisdictional changes, the composition of APUC also changed. Alaska Statute 42.05.040 originally required one member to be a law school graduate, one to be a university graduate with a major in engineering, and one to be a university graduate with a major in finance, accounting or business administration. Two additional positions were added to the commission in 1975 for which no specific qualifications were required. All members are appointed by the governor and confirmed by the legislature in joint session for six-year terms.

Under AS 42.05 and 42.06, APUC is charged with the responsibility to ensure the furnishing of adequate service to all public utility patrons, without discrimination and at reasonable rates consistent with the interests of both the public and the utility. Statutory provisions direct the commission, after determining an applicant is fit, willing, and able to provide utility service, to issue that applicant a Certificate of Public Convenience and Necessity. After issuance of this certificate, the commission then regulates the rates, classifications, rules, regulations, practices, services, and

Alaska Public Utilities Commission Members

Sam Cotten, Chairman
Finance seat
Term expires March 1999

Alyce Hanley
Consumer seat
Term expires March 2000

Dwight Ornquist
Engineering seat
Term expires March 2000¹

Tim Cook
Legal seat
Term expires March 2001

James Posey
Consumer seat
Term expires March 2002

¹ Chapter 1, SLA 95 revised the engineering seat term to four years for the next appointment only. This change was required to stagger all seat terms so that no two seats expire in the same year. After the one-time adjustment from a six-year to a four-year term, the seat will return to a six-year term as established in AS 42.05.030(a).

facilities of a public utility, unless it is exempted or deregulated. The commission has the authority to adopt regulations and to hold formal, quasi-judicial hearings to accomplish these purposes.

The staff of APUC is divided into the six major functions of administration, engineering, communication carriers, consumer protection, finance, and tariff. In total, APUC employs 40 people with an operating budget for FY 99 of \$4.4 million. A brief description of the services provided by these functions follow.

- Administration. An executive director, hired by the commission, is responsible for directing all staff functions and acts as a liaison between staff and commissioners and between the commission and the legislature. The executive director is responsible for records and document management, fiscal and personnel administration, and budget preparation. The director is assisted in these duties by an administrative assistant, document processing personnel, and other clerical support staff.
- Engineering. This section is responsible for the investigation of utility procedures and practices affecting quality of service. It also reviews legal descriptions for service areas, plans for plant expansion, and plant-in-service and depreciation schedules. These evaluations are presented in proceedings before the commission.
- Communication Carrier. This section was established to develop, recommend, and administer policies and programs with respect to the regulation of rates, services, accounting, and facilities of communications carriers within the State involving the use of wire, cables, radio and space satellites.
- Consumer Protection. Major responsibilities for this section include investigation and resolution of consumer complaints, public relations, and information dissemination.
- Finance. Activities carried out by this section include the examination, analysis, and evaluation of financial statements submitted for rate cases, audits of financial records of utilities, examination of financial information comprising historical operating year and pro forma adjustments, and the presentation of these analyses at proceedings before the commission.
- Tariff. This section examines, analyzes, and investigates tariff filings and presents recommendations to the commission at biweekly tariff action meetings. Administrative functions include organizing those meetings, ensuring that public notice requirements on tariff filings are met, and maintaining current master tariffs for all utilities.

REPORT CONCLUSIONS

While the recommendations included in this report may improve its efficiency and effectiveness, in our opinion, the Alaska Public Utilities Commission operates in a reasonably effective and efficient manner and should continue to regulate public utilities and pipelines. We believe that the public interest is being served by requiring public utilities and pipelines to be certificated and economically regulated by the commission. The regulatory process stabilizes the availability of utility services. Economic regulation by the commission ensures that, despite the absence of competition, utilities provide adequate service at reasonable rates.

We recommend that Alaska Statute 44.66.010(a)(4) be amended to extend the life of the Alaska Public Utilities Commission to June 30, 2003.

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FINDINGS AND RECOMMENDATIONS

Status of Prior Audit Recommendations

In our previous sunset audit,² we made five recommendations. All have been partially or fully implemented, except for those on Regulatory Cost Charge (RCC) allocations and employee timekeeping. These remaining issues are discussed again in this audit as part of Recommendation No. 1.

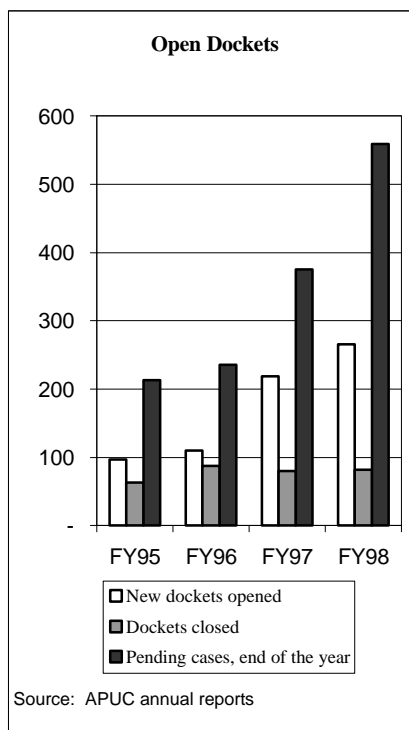
Recommendation No. 1

The commission should develop an integrated management information system.

The commission does not have ready access to the information which would enhance its ability to efficiently run its operation. An integrated database system could provide search and reporting routines for electronic filings, document tracking, staff assignments, process timelines, employee timekeeping, cost tracking, and cost and time budgeting. While the commission does function with the information it currently has, we believe the rapidly rising caseload and accompanying backlog requires the management function to be more efficient. It will enhance the Alaska Public Utilities Commission's (APUC) ability to prioritize, plan, schedule, and monitor its efforts.

The commission's workload has increased tremendously over the years. The graph illustrates these changes. Much of this increase is attributable to the Telecommunications Act of 1996. As such, we expect this aspect of the commission's workload to eventually stabilize, rather than continuing the apparent trend. This graph illustrates that new filings and the backlog far exceed the commission's current capacity. Before considering whether to request additional staff, we strongly urge APUC to develop a management information system to make its processes as efficient as possible.

As part of our audit, we obtained input from 43 of APUC's regulated utilities. Many of the respondents were concerned

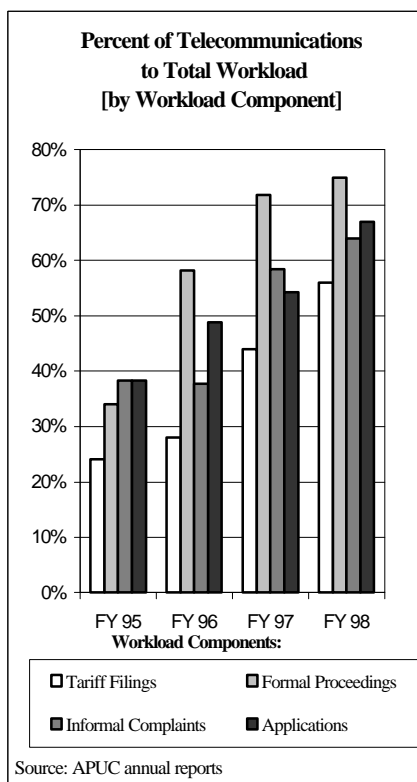


² Department of Commerce and Economic Development, Alaska Public Utilities Commission, January 26, 1993, Audit Control Number 08-1404-93.

about the commission's ability to respond in a timely manner. The National Regulatory Research Institute (NRRI) also voiced this concern in a report³ on the commission. We believe a management information system will allow APUC to begin to address this concern. It will allow management to track the timeline, workload, and staffing and to reallocate resources as necessary.

In designing this information system, the commission should consider implementing past Legislative Audit recommendations on cost allocation and employee timekeeping.

As we suggested in our 1994 audit of APUC, the RCC should be more reasonably allocated to cost-causing utilities. We believe a true user-fee design can establish basic fairness in that only those who benefit from the regulatory process bear its cost; it can also encourage consumers to recognize and eliminate unwarranted regulation through deregulation elections. However, these benefits will only be realized to the extent that the RCC program reasonably links the cost-causer to the cost-payer. As demonstrated in our 1994 report, the cost-causers were not the cost-payers. Telecommunications was substantially underpaying its share. This misallocation is even greater today. The graph shows how telecommunications has continued to absorb even more of the commission's resources. The formal proceedings component is by far the most time consuming of the four workload components shown. In FY 98, telecommunications accounted for 75% of APUC's formal proceedings filings. The applications component is also significant and, in FY 98, telecommunications accounted for 67% of the total application workload. Telecommunications was the dominant industry in FY 95 and has grown to where it now absorbs the vast majority of APUC resources.



The current RCC allocation is a straight percentage of each utility's revenue. While it serves as an alternative funding source, it fails to provide any of the above benefits of a true user fee. The commission should consider including this information in its design of a management information system. Regardless of whether the commission currently intends to pursue a user-fee approach, this type of data needs to be captured. It is needed to comply with AS 42.05.254(a), which requires APUC to bill utilities exempt from regulation for the actual cost of services provided by the commission.

³ *Report on the Alaska Public Utilities Commission*, October 1998. This report was commissioned and paid for by APUC at a cost of \$24,300. The study was conducted through interviews of APUC personnel; no utilities were interviewed. See further discussion in Recommendation No. 2. Copies of the report may be requested from APUC.

We also recommend that an employee timekeeping routine be included in the management information system. As we outlined in 1994, the costs to implement and operate timekeeping would be minimal, while the benefits would be substantial. In addition to giving APUC the tools to manage, it may increase staff efficiency as a result of timesheet accountability. Further, timesheets are essential to the “*actual cost*” calculations required under AS 42.05.254(a).

Recommendation No. 2

The commission should fully explore the findings and recommendations it received from the National Regulatory Research Institute (NRRI).

The commission engaged NRRI to “*assist [APUC] in an Organizational Self-Assessment As It Undertakes Efforts Toward Large-scale Change.*” In its October 1998 report, NRRI concluded that APUC was serving the public interest. Yet, it went on to say that “[*t*]here is a fear, however, that the agency cannot continue to perform its important functions without real reform.” The areas most in need of attention were deemed to be:

- Commissioner-staff and commissioner-to-commissioner relations, which includes issues of leadership and morale.
- Timeliness.
- The quality and speed of commission orders.
- The increase in consumer complaints, the likelihood that complaints will increase further, and the implications for the adequacy of current staffing levels.
- Electronic filing and management information systems.

In addition, throughout the report NRRI identified weaknesses and made suggestions for improvement. Examples of the interview notes, observations, and suggestions are as follows:

- . . . *substantial repairs need to be made to internal relationships if APUC is to thrive.*
- . . . *mitigation of morale problems and the application of leadership could go far to create a better internal cohesion*
- [There is a perceived need to improve] *vertical communication throughout the agency.*
- . . . *too frequent use of suspensions and extensions*

- . . . perceptions that commissioners do not ‘pull their weight’ were voiced several times in interviews.
- The morale at APUC appears to be low.
- . . . it appears that some APUC commissioners are too involved with administration. . . . One way to avoid this would be to strengthen the Chairman’s direction of purely administrative matters.
- Those interviewed expressed concern that the assignment of existing staff resources of APUC did not give adequate attention to the advisory function. Two general options are available for providing more staff assistance to commissioners. First, APUC could hire additional advisory staff or permanently assign staff to commissioners from existing staff resources. . . . Second, APUC could adopt administrative models that allow commissioners to have greater access to existing experts on the staff.
- The commission needs improved management information systems, but increased computerization will not solve information problems by itself. . . . [S]ystems for managing commission processes at APUC need to be improved.
- [There was a] sense of an absence of clear priorities throughout APUC that contributes to a crises mentality.
- The lack of timeliness and growing case backlog is a measure of impaired commission effectiveness. . . . The first step is to identify more clearly the nature of the backlog by industry and current status.
- . . . APUC might also consider changing the manner in which cases are heard. . . . In some cases around the nation, a single commissioner will hear a case; in other instances, several commissioners (less than the full commission) can hear cases. In other states, albeit typically larger ones, hearings are conducted by hearing examiners, who later present their findings to the commissioners for ratification or amendment.
- Increases in consumer complaints are beginning to strain the capacity of the Consumer Protection section.

Several of the above are clearly symptoms, while others may be the causes of inefficiency. As noted in the first graph in Recommendation No. 1, the commission’s workload far exceeds its current capacity. Before considering whether to request additional staff, we urge APUC to make its processes as efficient as possible. We encourage the commission to take full advantage of the observations and suggestions contained in NRRI’s report.

ANALYSIS OF PUBLIC NEED

Limited Analysis

The following analyses of commission activities address both positive and negative conditions related to the public need factors established in AS 44.66.050. These analyses are not intended to be all-inclusive, but rather address those areas we were able to cover within the scope of our review.

The extent to which the board, commission, or program has operated in the public interest.

The commission has made a conscientious effort to allow only qualified applicants to provide utility services and to regulate them in such a manner as to ensure adequate service at a reasonable cost. Upon finding that no public interest would be served by regulation, the commission administratively exempts certain utilities through its discretionary power granted by AS 42.05.711(d).

The extent to which the board, commission, or agency program has been impeded or enhanced by existing statutes, procedures, and practices that it has adopted, and any other matter, including budgetary, resource, and personnel matters.

The Telecommunications Act of 1996 (the act) imposed considerable new duties on state regulatory bodies. In FY 98, the commission initiated rulemaking and requested public comments in the areas of intrastate access charge reform, universal service, and market structure rules for competitive local exchange service mandated by the act.

As outlined in Recommendation No. 1, the commission's workload has increased tremendously over the past few years, primarily due to the Telecommunications Act. New filings far exceed the commission's current capacity and the backlog is overwhelming. Before considering whether to request additional staff, we strongly urge APUC to develop a management information system to make its processes as efficient as possible. This system should allow management to track the timeline, workload, and staffing and to reallocate resources as needed.

Along with this backlog situation, APUC is hampered by a number of management weaknesses and other operational problems. These issues were brought to the commission's attention in a report by the National Regulatory Research Institute. See Recommendation No. 2. We urge APUC to fully explore these findings and to make its processes as efficient as possible.

The extent to which the board, commission, or agency has recommended statutory changes that are generally of benefit to the public interest.

The commission supported statute changes, as recommended by the Division of Legislative Audit, to increase the revenue thresholds for deregulation exemptions. The amendments to AS 42.05.711 gave consumers greater ability to opt out of regulation.

Also as recommended by the Division of Legislative Audit, terms of the commissioners were adjusted to allow for one commissioner term to expire in each year. The commission supported this amendment to AS 42.05.030. Multiple expirations in a given year could have substantially impacted commission expertise.

The extent to which the board, commission, or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service that it has provided.

Formal proceedings are properly and timely noticed and are open to the public. The commission has held public hearings and formal proceedings within the service areas of the utilities before them to facilitate the public attendance and participation. The commission also staffs a Consumer Protection section to resolve complaints and disseminate information.

Beginning in FY 97, APUC increased its accessibility to the public by publishing its annual reports on its Internet website (<http://www.state.ak.us/apuc>). It also began to publish its orders on the Internet to make them readily available and established a pilot project for accepting electronic filings by public utilities and pipeline carriers.

Approximately once a year, the commission holds an informal work session for attorneys representing utility clients and other interested parties in order to answer questions and solicit feedback.

The extent to which the board, commission, or agency has encouraged public participation in the making of its regulations and decisions.

All formal proceedings, including hearings on proposed regulations, are noticed and open to the public. Any interested person or party may intervene in a formal proceeding if the intervention will benefit, but not unduly delay, the proceeding. The commission has also held informal workshops with attorneys and utility representatives in an attempt to be more responsive to the needs and concerns of these groups.

The efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the Office of the Ombudsman have been processed and resolved.

The commission has adopted regulations for informal and formal complaint procedures, including a requirement that the complaint be made first to the utility before being filed with the commission. If the complaint cannot be resolved informally, formal procedures, including an investigation, may be initiated. The Office of the Ombudsman handled one case in the period from FY 94 through FY 98 regarding a complaint against the commission. The complaint resolution process appeared to be operating satisfactorily.

The extent to which the board or commission which regulates entry into an occupation or profession has presented qualified applicants to serve the public.

Prior to granting a Certificate of Public Convenience and Necessity to a public utility, the commission determines that the applicant is fit, willing, and able to provide the service. To that end, it employs utility financial analysts and utility engineers to perform the appropriate analyses to make this determination.

The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission, or agency to its own activities and the area of activity or interest.

We found no evidence of hiring practices or commission appointments that were contrary to state personnel practices. No complaints have been filed with the Alaska Human Rights Commission or the Division of Equal Employment Opportunity.

The extent to which statutory, regulatory, budgeting, or other changes are necessary to enable the agency, board, or commission to better serve the interests of the public and to comply with the factors enumerated in this subsection.

Please refer to the Findings and Recommendations section.

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APPENDIX

Department of Commerce and Economic Development
Alaska Public Utilities Commission
Summary of Appropriations and Expenditures
For Fiscal Years 1998 and 1999
(Unaudited)

Authorized Expenditures	FY 98		FY 99
	Authorized	Expenditures	Authorized
Personal Services	2,567,600	2,628,190	2,850,800
Travel	35,000	51,346	35,000
Contractual	1,780,759	983,478	1,961,400
Supplies	62,500	71,868	62,500
Equipment	<u>13,800</u>	<u>16,172</u>	<u>13,800</u>
Total	<u>4,459,659</u>	<u>3,751,054</u>	<u>4,923,500</u>

Appropriated Revenues	FY 98		FY 99
	Appropriated	Actual Receipts	Appropriated
APUC Receipts	4,015,000	3,775,601	4,923,500
APUC Carryforward Receipts	<u>444,659</u>	<u>67,571</u>	<u>-0-</u>
Total	<u>4,459,659</u>	<u>3,843,172</u>	<u>4,923,500</u>

The information included in this summary was obtained from the State's accounting records. We have not audited this information and, accordingly, we express no opinion on it.

March 4, 1999

Pat Davidson, Legislative Auditor
Division of Legislative Audit
Legislative Budget and Audit Committee
Alaska State Legislature
P.O. Box 113300
Juneau, Alaska 99811-3300

Ref: 08-1459-99, Legislative Audit of APUC

Dear Ms. Davidson:

On behalf of the Alaska Public Utilities Commission the Commission is pleased to respond to your request for a written and electronic response to the legislative sunset audit, and specifically to the recommendations.

You have confirmed and described the reality that we face every day: the tremendous increase in the Commission's workload. The number of new formal cases increased 174% between FY95 and FY98, resulting in more than 559 open cases on June 30, 1998. The Legislature has responded to this substantially increased workload with additional funding, appropriating a total of \$4,912.6 for FY99. This level would support 51 positions as requested in the governor's FY00 budget request for the Commission.

It has always been a priority for the Commission to make timely decisions in response to utility and pipeline carrier filings, and they are even more important as the level of competition in a market increases. Utilities expect - and deserve - timely regulatory decisions. By using roll-forward funds last year the Commission was able to hire additional staff. Last year we increased the number of substantive orders produced by the Commission by 36% to 432.

The telecommunications workload of the Commission has skyrocketed with the advent of local competition under the Federal Telecommunications Act of 1996. The legislature is considering electric and other utility restructuring this session, which has already increased the size and complexity of the Commission's electric caseload. We do not see an end in sight.

We recommend that Alaska Statute 44.66.010(a)(4) be amended to extend the life of the Alaska Public Utilities Commission to June 30, 2003. (Audit, p. 5)

The Commission concurs. Four years ago the Commission was allowed to slip into its wind-down year by legislative inaction, producing substantial uncertainty for the regulated utilities as

well as the Commission. Continuity in utilities regulation is extremely important.

Recommendation No. 1: The commission should develop an integrated management information system. (p. 7)

The Commission concurs. We have earmarked Contractual funds to retain a professional services consultant to work with the Commission to develop a management information system (MIS). We expect to have the consultant on board this month. Based on the Commission's review of the recommendations developed by the consultant, an RFP will be issued by mid-October, with purchase and roll-out by then end of the year.

The potential benefits of an integrated database you described would be extremely useful to the Commission. The ability to track documents and docket assignments would be especially helpful. The Commission agrees that in designing the system the Commission should consider past Legislative Audit recommendations on cost allocation and employee timekeeping.

The 1994 audit suggested that the Regulatory Cost Charge (RCC) should be more reasonably allocated to cost causers. In 1995 the Legislature, in response to electric utilities assertions that they were paying too much RCC, changed the statutes by adding AS 42.05.254(c)(3):

an electric utility shall reduce its gross revenue by subtracting the cost of power; in this paragraph, A cost of power means the costs of generation and purchased power reported to the commission.

Exclusion of the cost of power has reduced electric utility customers' RCC payments by more than 43%.

The Commission agrees that the Commission should consider the cost-effectiveness of a timekeeping component within its management information system. The experience of some other agencies suggests that the A minimal cost of such a system varies, especially when the cost of implementation is factored in. In addition, of concern is the time required to document work would take away from the already too limited time spent doing regulatory analysis. Those dockets requiring documentation of actual cost charges, such as power cost equalization, are computed in accordance with a Commission regulation that developed rates using a sampling methodology. Timesheets are not required for this purpose.

Recommendation No. 2: The commission should fully explore the findings and recommendations it received from the National Regulatory Research Institute (NRRI). (p. 9)

Once again the Commission concurs with this recommendation. The Commission initiated this study because we believed that it would assist us to focus on the positive change that is needed for an agency simultaneously facing a significantly increased workload as well as proposals for regulatory reform.

The Commission has repeatedly considered agenda items related to the NRRI study on the

public meeting calendar and expects to continue to do so on a regular basis.

For example, recently we directed staff to analyze the backlog by utility type and case type and expect a report back next week. Recently the Commission analyzed the NRRI recommendation to increase its use of hearing officers. This is consistent with successful efforts we have employed to resolve interconnection arbitration disputes under the federal telecommunications legislation. The Commission is developing an RFP to contract for Hearing Officers with increased authority to hear cases on their own and bring back recommended decisions to the Commission for its review. This will help materially in addressing the backlog of pending cases.

The Commission recognizes the overload in consumer complaints faced by the Consumer Protection Section. We have created a new Consumer Protection position utilizing a vacant slot. Recruitment for this position is scheduled to occur next week.

At a recent¹ informal “bench and bar” session of practitioners sponsored by the Commission, participants told Commissioners that they appreciated the faster case processing that resulted from the Commission's occasional use of Civil Rule 77 and would like to see it used more often. The Commission opened a rulemaking docket to make the use of this rule standard Commission practice.

The audit quoted some of NRRI’s anecdotal notes from interviews they conducted. We recognize the large workload that we face and therefore the importance of pulling together to minimize the impact of internal divisions.

Sincerely,

Sam Cotten
Chairman

¹ These meetings occur every other month, rather than annually.

March 18, 1999

Members of the Legislative Budget
and Audit Committee

We have reviewed the Alaska Public Utilities Commission's (APUC) response to our preliminary audit report. APUC generally concurs with our findings and recommendations.

However, in its response to Recommendation No. 1, while the commission agreed that an integrated management information system was needed, it also indicated that it believed a timekeeping component was not necessary for computing the charges to be billed to various dockets. The commission states that:

[t]hose dockets requiring documentation of actual cost charges, such as power cost equalization, are computed in accordance with a commission regulation that developed rates using a sampling methodology. Timesheets are not required for this purpose.

We offer the following additional observations.

- A timekeeping system that is only used occasionally may not be as effective and efficient as a permanent system that is familiar to all employees.
- Our review of power cost equalization (PCE) billings indicates that APUC is not recouping actual costs. The commission only billed \$24,480 and \$15,240 in FY 97 and FY 98, respectively. We understand that actual personal service costs were approximately \$100,000 in each of these years for the PCE effort.

We continue to believe that a timekeeping system is needed to comply with AS 42.05.254(a), which requires the commission to bill utilities exempt from regulation for the actual cost of services provided. The above PCE example shows that current procedures are ineffective.

In summary, we reaffirm the report findings.

Pat Davidson, CPA
Legislative Auditor