

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Robert M. Pickett, Chairman  
Kate Giard  
Paul F. Lisankie  
T.W. Patch  
Janis W. Wilson

In the Matter of the Revenue Requirement and  
Cost-of-Service Studies, Filed by GOLDEN  
HEART UTILITIES, INC. and COLLEGE  
UTILITIES CORPORATION, INC. as Tariff  
Revisions TA29-118 and TA82-97, for Water  
Public Utility Service

U-05-43  
ORDER NO. 20

In the Matter of the Revenue Requirement and  
Cost-of-Service Studies, Filed by GOLDEN  
HEART UTILITIES, INC. and COLLEGE  
UTILITIES CORPORATION, INC. as Tariff  
Revisions TA25-290 and TA88-37, for Sewer  
Public Utility Service

U-05-44  
ORDER NO. 20

**ORDER DETERMINING REMANDED REVENUE REQUIREMENT ISSUES  
OF RATE CASE EXPENSE AND CORPORATE GOVERNANCE COSTS**

BY THE COMMISSION:

Summary

We determine two of the six revenue requirement issues remanded by the  
Superior Court for the State of Alaska, Fourth Judicial District at Fairbanks (Superior  
Court).

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

Background

Golden Heart Utilities, Inc. (GHU) and College Utilities Corporation (CUC) filed tariff revisions designated as TA29-118, TA88-37, TA25-290, and TA82-97. We suspended the filings into these dockets for investigation.<sup>1</sup> We issued a final order regarding revenue requirements for GHU and CUC<sup>2</sup> and an order granting, in part, a petition for reconsideration.<sup>3</sup> Both GHU and CUC,<sup>4</sup> and the Attorney General (AG)<sup>5</sup> appealed our orders to the Superior Court. We granted a motion to assess interest on refunds.<sup>6</sup> The Superior Court stayed our order for refunds.<sup>7</sup> The Superior Court rendered its decision, affirming our orders in certain respects but reversing and remanding six issues for our further consideration.<sup>8</sup> The Superior Court denied

---

<sup>1</sup>Order U-05-43(5)/U-05-44(5), *Order Suspending Tariff Filings, Appointing Hearing Examiner, Granting Intervention, Scheduling Prehearing Conference and Amending Docket Titles*, dated November 21, 2005.

<sup>2</sup>Order U-05-43(15)/U-05-44(15), *Order Establishing Revenue Requirement, Ordering Refunds, and Requiring Filings*, dated January 8, 2007 (Order U-05-43(15)/U-05-44(15)).

<sup>3</sup>Order U-05-43(18)/U-05-44(18), *Order Granting in Part Petition for Reconsideration*, dated February 26, 2007.

<sup>4</sup>See *Notice of Appeal, Golden Heart Utilities, Inc. v. Regulatory Commission of Alaska*, No. 4FA-07-1360 CI (Alaska Super. 4th Dist., March 23, 2007).

<sup>5</sup>See *Notice of Cross-Appeal, Golden Heart Utilities, Inc. v. Regulatory Commission of Alaska* No. 4FA-07-1360 CI (Alaska Super. 4th Dist., April 5, 2007).

<sup>6</sup>Order U-05-43(19)/U-05-44(19), *Order Granting Motion to Assess Interest on Refunds*, dated August 28, 2007.

<sup>7</sup>See *[Proposed] Order Approving Motion for Stay, Golden Heart Utilities, Inc. v. Regulatory Commission of Alaska*, No. 4FA-07-1360 CI (Alaska Super. 4th Dist., April 17, 2007).

<sup>8</sup>See *Decision on Appeal, Golden Heart Utilities, Inc. v. Regulatory Commission of Alaska*, No. 4FA-07-1360 CI (Alaska Super. 4th Dist., June 11, 2009) (Decision on Appeal).

1 rehearing on one of the remanded issues.<sup>9</sup> The Supreme Court denied our petition for  
2 review of the Superior Court's decision.<sup>10</sup>

3 We required the parties<sup>11</sup> to inform us in writing whether they intended to  
4 actively participate in the remand of these dockets and what additional testimony, briefs,  
5 or other procedures they believed were necessary or appropriate prior to our review of  
6 each of the six remanded issues.<sup>12</sup> AARP and Water Wagon stated that they did not  
7 intend to participate in the remand proceedings.<sup>13</sup> GHU and CUC, JL Properties, and  
8 the AG indicated they intended to participate and made recommendations for additional  
9 procedures.<sup>14</sup> After review of the parties' recommendations, we established procedures  
10 for making determinations on each of the six remanded issues.<sup>15</sup>

---

13 <sup>9</sup>See *Decision on Rehearing – Interest on Refunds, Golden Heart Utilities, Inc. v.*  
14 *Regulatory Commission of Alaska*, No. 4FA-07-1360 CI (Alaska Super. 4th Dist.,  
November 17, 2009).

15 <sup>10</sup>*Order – Petition for Review*, Supreme Court No. S-137000, dated February 3,  
16 2010.

17 <sup>11</sup>In addition to GHU, CUC and the AG, the parties include IMIK Alaska, LLC  
d/b/a Water Wagon (Water Wagon), JL Properties, Inc. (JL Properties), and AARP.

18 <sup>12</sup>*Order Requiring Filings*, issued March 9, 2010.

19 <sup>13</sup>*Notice of Non-Participation*, filed March 26, 2010, by AARP; *Notice of Non-*  
*Participation*, filed March 26, 2010, by Water Wagon.

20 <sup>14</sup>*Golden Heart Utilities, Inc. and College Utilities Corporation's Filing Re: Issues*  
21 *on Remand*, filed March 26, 2010 (GHU and CUC Filing); *JL Properties, Inc.'s Filing in*  
22 *Compliance with Electronic Order of ALJ Lawrence, Dated March 9, 2010*, filed  
March 26, 2010 (JL Properties Filing); *Attorney General's Response to Electronic Order*  
*Requiring Filings* (AG Filing), filed March 30, 2010.

23 <sup>15</sup>*Notice of Commission Decision on Remand Procedures*, issued April 16, 2010  
24 (Notice of Commission Decision); *Notice of Second Commission Decision on Remand*  
*Procedures (Revised)*, issued April 23, 2010 (Notice of Second Commission Decision);  
25 *Notice of Third Commission Decision on Remand Procedures*, issued August 24, 2010  
(Notice of Third Commission Decision).

1 We determined that the record was sufficient and did not need further  
2 development with respect to the issues of rate case expenses and corporate  
3 governance costs. Consequently, no additional evidence, hearings, or briefs were  
4 required before further considering and rendering a decision on these remanded  
5 issues.<sup>16</sup> We determined that the other four issues required additional proceedings.<sup>17</sup>  
6 We granted unopposed motions to extend the deadlines for briefs on the remaining four  
7 issues.<sup>18</sup>

#### 8 Discussion

9 This order addresses rate case expenses and corporate governance  
10 costs. The remaining four issues will be addressed in future orders. Because the  
11 remaining four issues have not yet been decided, this order is not a final order  
12 responding to the remand of the issues in these dockets.

#### 13 Rate Case Expenses

14 Cost-based ratemaking follows a method intended to produce revenue  
15 sufficient to cover the utility's operating expenses including depreciation and taxes and  
16 a reasonable return to investors. Beginning with a detailed study of the utility's actual  
17 revenues and operating expenses in a test year, adjustments to expenses and  
18 revenues incorporate changes expected to occur in a future period when requested  
19 rates will be in effect. This process creates a normalized test year which is used to  
20 determine the revenue requirement.

21 Rate case expenses present a unique challenge to the standard

---

22 <sup>16</sup>Notice of Commission Decision; Notice of Second Commission Decision.

23 <sup>17</sup>Notice of Third Commission Decision.

24 <sup>18</sup>*Order Granting Non-Opposed Motion for Extension*, dated October 4, 2010;  
25 *Order Granting Non-Opposed Motion for Extension*, dated October 20, 2010; *Order*  
26 *Granting Non-Opposed Motion to Stay Briefing Deadline*, dated October 29, 2010.

1 normalizing process in a utility's revenue requirement. Rate case expenses incorporate  
2 those costs associated with the services of attorneys, consultants, and expert witnesses  
3 in the presentation of studies and other evidence supporting the utility's filing. Unlike  
4 most operating costs incurred by a utility on an ongoing basis, rate case costs are  
5 incurred with respect only to the pending rate case and can be difficult to predict due to  
6 a number of factors, including:

- 7       • the number of intervenors;
- 8       • the number and complexity of the issues the intervenors choose to raise;
- 9       • the number of issues raised by Commission Staff;
- 10      • the parties' success in narrowing the issues;
- 11      • the volume of discovery activities; and
- 12      • whether the rate case is resolved through settlement or by a decision following  
13      a hearing.<sup>19</sup>

14 In defense of its entire revenue requirement, of which rate case expense is a  
15 component, the utility bears the burden of proof that its proposed expenses are  
16 reasonable.<sup>20</sup>

17       Initially, GHU and CUC requested rate case expenses of \$561,017,<sup>21</sup> but  
18 later claimed expenses of \$992,044.<sup>22</sup> The utilities provided several reasons why rate  
19 case expenses had increased. GHU and CUC explained that in compliance with a  
20 previous settlement, postage stamp rates were proposed.<sup>23</sup> The process of creating

---

21       <sup>19</sup>T-4, *Prefiled Reply Testimony of George E. Gordon (Water and Wastewater)*;  
22       *Errata Sheet GEG-18*, admitted August 28, 2006, (T-4), at 47.

23       <sup>20</sup>AS 42.05.421(d).

24       <sup>21</sup>T-4 at 76.

25       <sup>22</sup>*Id.* at 77. The cost components are set forth at Exhibit GEG-12 at 1.

26       <sup>23</sup>See *Stipulation*, filed February 19, 2003, at 3-4, in Dockets U-02-13/U-02-14/  
U-02-15.

1 postage stamp rates included four separate revenue requirement studies with detailed  
2 revenue, expense, and plant calculations, a study detailing the underlying costs, and  
3 cost allocations for each utility.<sup>24</sup> These revenue requirement studies were then  
4 combined into two joint revenue requirement studies, one for water and one for  
5 wastewater.<sup>25</sup> The utilities explained that they relied to a large extent on outside  
6 consultants and experts to support these activities.<sup>26</sup>

7 [W]e have little ability to absorb more work than one person can do on  
8 regulatory activities. All other assistance and counsel is secured from  
9 outside the company for each case. This includes revenue requirement  
10 review and analysis, cost of capital development, Cost of Service Study, and  
11 legal assistance. Outside assistance is required not only for the initial filing  
12 of the rate case but also for responding to the voluminous discovery FSW  
13 receives and for preparing for hearing on the rate case.<sup>27</sup>

14 Finally, GHU and CUC indicated that the number of intervenors<sup>28</sup> and the large number  
15 of issues addressed in our Commission Staff's (Staff) initial memorandum,<sup>29</sup> together  
16 with a week-long hearing in Fairbanks caused rate case costs to increase.<sup>30</sup>

17 In 1988 we first employed a trend analysis of rate case expenses to find a  
18 normalized level of rate case expense.<sup>31</sup> Our goal in examining the trends associated  
19 with rate case expense is to arrive at a reasonable amount of rate case costs we

---

20 <sup>24</sup>T-3, *Prefiled Testimony of George E. Gordon*, admitted August 28, 2006, at 5-7.

21 <sup>25</sup>T-4 at 64-65.

22 <sup>26</sup>*Id.* at 76-77. GHU and CUC's outside consultants included R.W. Beck,  
23 Honchen & Uhlenkott, and a university professor from the Carlson School of  
24 Management at the University of Minnesota along with legal counsel.

25 <sup>27</sup>*Id.* at 73-74.

26 <sup>28</sup>*Id.* at 65-66. Intervention was granted to Water Wagon, JL Properties, and  
AARP. The AG filed a notice of participation.

<sup>29</sup>*Id.* at 65.

<sup>30</sup>*Id.* at 67.

<sup>31</sup>Order U-87-84(8), *Order Deciding Revenue Requirement Issues and Requiring Filings*, dated September 7, 1988, (Order U-87-84(8)), at 13-14.

1 anticipate will be incurred during the period the rates are in effect. Identifying the time  
2 period for the trend data is our first step. We examine both the particular utility's filing  
3 frequency and what kinds of filings, including revenue requirements, rate design,  
4 depreciation and others, were made.<sup>32</sup> Next, based on the current record and historical  
5 information of past rate cases, we gain an understanding of the circumstances  
6 associated with each data point. We pay particular attention to how a case is resolved,  
7 whether it was settled by agreement of the parties or concluded through litigation.  
8 Finally, we evaluate the data, individually and collectively to determine whether any data  
9 point should be given more or less weight due to specific circumstances. The data is  
10 then averaged. We examine the outcome to determine if it provides a reasonable level  
11 of costs which are likely to be incurred during the time the rates are in effect.  
12 Consistent with the determination of the Superior Court,<sup>33</sup> we believe our analysis, when  
13 properly applied, yields reasonable results.

14 Under the current ownership structure, GHU and CUC were certificated to  
15 provide public utility service on September 24, 1997.<sup>34</sup> Previously, GHU had been  
16 unregulated. As shown in the table below, GHU filed its first revenue requirement in  
17 2000, a second in 2002, and in 2005 filed a combined revenue requirement with CUC.  
18 Given the youth of these utilities in their current form, we find a longer trend period will  
19 provide better data for our analysis. We will evaluate rate case costs incurred during  
20 the period from 2000 to 2005.

21  
22 <sup>32</sup>Order U-87-84(8) at 13-14.

23 <sup>33</sup>Decision on Appeal at 13.

24 <sup>34</sup>See Order U-96-114(5)/U-96-115(5)/U-96-116(5)/U-96-117(5)/U-96-118(5)/  
25 U-96-119(5), *Order Affirming Bench Rulings; Denying Motion to Strike and In Limine;*  
26 *Approving Applications, with Conditions; Approving Initial Tariff, with Modifications;*  
*Approving Rates; and Requiring Filings*, dated September 24, 1997.



Rate Cases	Utility <sup>35</sup>	Year	Result	Cost
U-00-115/U-00-116	GHU	2000	Litigated	\$560,793 <sup>36</sup>
U-02-13/U-02-14	GHU	2002	Settled	\$147,770 <sup>37</sup>
U-05-43/U-05-44	GHU/CUC	2005	Litigated	\$992,044 <sup>38</sup>

In Order U-05-43(15)/U-05-44(15) we excluded the costs associated with the 2005 filing from our trend analysis.<sup>39</sup> In the past, we have found good cause to exclude actual expenses from consideration if they were not normal or typical. For example, in Dockets U-92-54 and U-92-55, CUC's initial cost-of-service study (COSS) included serious errors that generated much controversy.<sup>40</sup> After the intervention of the University of Alaska Fairbanks, CUC's costs increased by \$27,000.<sup>41</sup> In establishing CUC's rate case expense, we determined that CUC's actual costs were not normal or typical because of errors in the COSS and that they were largely unreasonable.<sup>42</sup>

<sup>35</sup>For the purposes of this chart "GHU" includes GHU Water Utility and GHU Wastewater Utility. "CUC" includes CUC Water Utility and CUC Wastewater Utility.

<sup>36</sup>T-4 at 51.

<sup>37</sup>*Id.* at 52.

<sup>38</sup>*Id.* at 77.

<sup>39</sup>Order U-05-43(15)/U-05-44(15) at 26 (citing Order U-91-91(10), *Order Addressing Revenue Requirement Issues; Requiring Filings; Requiring Utility to Show Cause Why Penalties Should Not Be Levied; and Scheduling Hearing*, dated October 1, 1992 (Order U-91-91(10))).

<sup>40</sup>Order U-92-54(5)/U-92-55(5), *Order Addressing Issues and Requiring Filings*, dated December 8, 1992, (Order U-92-54(5)/U-92-55(5)), at 9.

<sup>41</sup>*Id.* at 9.

<sup>42</sup>*Id.* at 9-10.



1 Our examination of this record indicates GHU and CUC's 2005 filings  
2 were not normal or typical in many respects. The 2005 filings were the first combined  
3 revenue requirements filed by the utilities as subsidiaries under the new ownership  
4 structure. Under a previous stipulation, the utilities had agreed that the 2005 revenue  
5 requirements would transition to postage stamp rates, an event not likely to recur.<sup>43</sup>  
6 GHU and CUC filed extensive testimony responding, in part, to issues raised by our  
7 Staff's memorandum, which is not required by our regulations.<sup>44</sup> New parties, who had  
8 not intervened in prior dockets<sup>45</sup> intervened and actively participated in these dockets  
9 and discovery was extensive.<sup>46</sup>

10 Although there may be any number of isolated reasons supporting the  
11 2005 dockets as atypical, there was an insufficient basis for our earlier decision to  
12 exclude the 2005 rate case expenses from consideration. Unlike Dockets U-92-54 and  
13 U-92-55 discussed above, no party in Dockets U-05-43 and U-05-44 identified errors,  
14 omissions, or imprudent acts that materially increased GHU and CUC rate case costs  
15 which could justify exclusion. We will include the full amount of the 2005 rate case  
16 costs of \$992,044 in our analysis.

17 We now examine whether to give any individual component of the trending  
18 data greater weight than other components. We decline to weigh the 2000, 2002, or  
19 2005 costs at a greater or lesser weight. We do not give greater weight to the 2005

---

21 <sup>43</sup>Postage stamp rates can be modified in subsequent rate cases, but  
22 establishing postage stamp rates the first time requires substantially more effort than  
later revision.

23 <sup>44</sup>Our Staff's memorandum addressed multiple concerns with GHU and CUC's  
24 filing as the basis for its recommendation that we suspend the filings for investigation;  
they are not evidence.

25 <sup>45</sup>T-4 at 65-66.

26 <sup>46</sup>*Id.* at 61.

costs in our analysis because we found no evidence of a permanent upward trend in rate case expenses. Rather, we found many events occurring in these cases which contributed to the higher cost, such as creating postage stamp rates. Conversely, we decline to give lesser weight to the 2005 costs for these atypical aspects of these cases. We find that postage stamp rates were part of an earlier stipulation and that responding to the Staff memorandum may have aided parties in better understanding GHU and CUC's position. We gave full weight to the 2000 rate case filed by GHU and the subsequent settlement of the 2002 GHU rate case in our previous order and find no basis for modifying that decision on remand.

Rate Cases	Utility <sup>47</sup>	Year	Result	Cost	Weight	Cost
U-00-115/U-00-116	GHU	2000	Litigated	\$560,793 <sup>48</sup>	33%	\$185,062
U-02-13/U-02-14	GHU	2002	Settled	\$147,770 <sup>49</sup>	33%	\$48,764
U-05-43/U-05-44	GHU/ CUC	2005	Litigated	\$992,044 <sup>50</sup>	33%	\$327,375

Our trend analysis results in a normal and recurring rate case expense for GHU and CUC of approximately \$561,000.

We note that the result of our analysis closely approximates the cost of the 2000 rate case. We consider the possibility that postage stamp rates may result in a higher cost for GHU and CUC to prepare and defend rate cases. Postage stamp rates for this utility increased the number of revenue requirements that must be prepared and also increased the computation steps necessary to arrive at a combined revenue

<sup>47</sup>For the purposes of this chart "GHU" includes GHU Water Utility and GHU Wastewater Utility. "CUC" includes CUC Water Utility and CUC Wastewater Utility.

<sup>48</sup>T-4 at 51.

<sup>49</sup>*Id.* at 52.

<sup>50</sup>*Id.* at 77.

1 requirement. However, we do not find that, on this basis alone, the result of our trend  
2 analysis is deficient.

3 While the computational aspects of GHU and CUC's filings are more  
4 arduous to prepare and perhaps for parties to review, testimony is prepared in the  
5 aggregate. There are not four separate testimonies prepared for each individual utility,  
6 nor are there separate testimonies prepared for each combined utility. The issues that  
7 become disputed are addressed at hearing in the aggregate and the result for each  
8 combined utility is identified and flows down into the revenue requirements. While  
9 discovery may progress to the individual utility, it is our belief based on the evidence of  
10 this and GHU and CUC's previous experience, that the most significant rate case cost  
11 driver is whether a case progresses to hearing or settles.

12 The 2002 case settled after revenue requirements were prepared, direct  
13 testimony filed, discovery performed, motions filed, opposition testimony filed by two  
14 opposing parties, and reply testimony filed by GHU. The total stipulated rate case costs  
15 for the 2002 case were \$147,770.

16 Virtually the same process occurred for the 2000 case, yet there was a  
17 six-day hearing, a decision by the commission, reconsideration, and a further hearing  
18 reopening the evidential record and subsequent decisions. Rate case costs for the  
19 2000 case totaled \$560,793. The cost differential between the 2002 settled case and  
20 the litigated 2000 case provides a sufficient evidential basis for our conclusion that rate  
21 case expenses increase materially when a case proceeds to hearing.

1 GHU and CUC's experience leads to the conclusion that it will have cases  
2 that proceed to hearing and those which settle.<sup>51</sup> When GHU and CUC settle a case,  
3 we expect that it will cost less than the litigated cases of 2000 and 2005. Were we to  
4 consider only the litigated cases in determining rate case expense for GHU and CUC,  
5 we would be ignoring a normal and reasonable outcome that has occurred in the past  
6 and is a less costly solution for all.<sup>52</sup>

7 Establishing allowable rate case expenses requires a delicate balance.  
8 We are mindful that establishing unreasonably low rate case expenses may strategically  
9 disadvantage the utility in its ability to take a case to hearing, essentially forcing it to  
10 settle. We believe we have achieved a balanced result for GHU and CUC which will  
11 allow the utility to collect a level of rate case expense that it could reasonably incur  
12 during the time the rates are in effect.

13 We establish rate case expense as a deferred regulatory (non rate base)  
14 asset to be amortized over a three-year period. Although GHU and CUC subsequently  
15 filed rate cases in 2006 and 2007, we find it is just and reasonable to allow the utility the  
16 opportunity to collect the full amount of the unamortized balance and so order.

#### 17 Corporate Governance Expense

18 In Order U-05-43(15)/U-05-44(15) we found that \$65,000 of the \$126,350  
19 of corporate governance cost claimed by GHU and CUC was reasonable and included

---

21 <sup>51</sup>We note that two of the three subsequent GHU and CUC rate cases settled  
22 prior to hearing. See Order U-06-76(7)/U-06-77(8), *Order Accepting Stipulations,*  
23 *Subject to Conditions; Requiring Filings; and Vacating Procedural Schedule*, dated  
24 July 23, 2007, and Letter Order No. LO900457, dated August 27, 2009. We also note  
25 that in the other subsequent case, the rate case expenses proposed by GHU and CUC  
26 which we accepted were \$600,000. Order U-07-76(8)/U-07-77(8), *Order Establishing*  
*Revenue Requirement, Ordering Refunds, and Requiring Filings*, dated June 30, 2008,  
at 26.

<sup>52</sup>*Id.*

1 that amount in the revenue requirement.<sup>53</sup> The witnesses for the AG and AARP had  
2 recommended partial disallowance of corporate governance costs on the basis of  
3 representations made by GHU and CUC at the time of a change in ownership that  
4 governance costs would not increase as a result of the change.<sup>54</sup> We declined to find  
5 that the utilities had guaranteed that governance costs would never increase but  
6 nonetheless found that an increase of over 100 percent since 1999 raised questions of  
7 reasonableness and that a governance cost level of \$65,000 was reasonable for an  
8 organization the size of GHU and CUC.<sup>55</sup>

9 The Superior Court ruled that our decision to reduce the governance cost  
10 from \$126,350 to \$65,000 was not supported by a reasonable explanation.<sup>56</sup> The  
11 Superior Court noted that we rejected the rationale offered by the AG and AARP  
12 witnesses for disallowing corporate governance costs, but did not explain why we did  
13 not accept the utilities' explanation for the increase in governance costs nor did we  
14 explain the basis on which we found \$65,000 was appropriate.<sup>57</sup>

15 Our careful review of the record after the remand discloses no credible  
16 evidence that contradicts the testimony of Daniel E. Gavora (Gavora), presented on  
17 behalf of GHU and CUC. Gavora explains the reasons for the increase to corporate  
18 governance costs.<sup>58</sup> Neither does our review reveal any evidence which provides  
19 support for a finding that a lower cost level is more reasonable than the cost level  
20

---

21 <sup>53</sup>Order U-05-43(15)/U-05-44(15) at 15.

22 <sup>54</sup>*Id.*

23 <sup>55</sup>*Id.*

24 <sup>56</sup>Decision on Appeal at 27.

25 <sup>57</sup>*Id.* at 26-28.

26 <sup>58</sup>T-2, *Prefiled Reply Testimony of Daniel E. Gavora (Water and Wastewater)*,  
admitted August 28, 2006, (T-2), at 23-30.

1 proposed by Gavora.

2           Gavora identified benefits related to the increased governance costs,  
3 including greater oversight of utility operations by the Board of Directors; the formation  
4 of three new Board committees focused on: (1) audit and governance; (2) human  
5 resources and compensation; and (3) health, safety and environment.<sup>59</sup> He testified  
6 that the Audit and Governance Committee reviewed and investigated financial and  
7 internal controls, ensured the accuracy of financial statements, and supervised the work  
8 of the external auditors.<sup>60</sup> He explained that the Human Resources and Compensation  
9 Committee reviewed and approved the development and implementation of an  
10 executive management continuity plan, human resources systems, and compensation  
11 plans, and the Committee also monitored practices to ensure they comply with  
12 applicable laws and regulations.<sup>61</sup> He explained that the Health, Safety and  
13 Environment Committee ensured that the companies were fulfilling their responsibilities  
14 of providing a productive and safe workplace and adequate environmental protection  
15 and safeguards, and that the Committee made recommendations regarding health,  
16 safety, environment and security policies.<sup>62</sup> Gavora stated that these enhancements to  
17 the Board's oversight of utility operations ultimately would have taken place regardless  
18 of the change in ownership of the utilities.<sup>63</sup> Finally, Gavora testified that utility  
19 customers benefit from having an active Board that regularly reviews detailed reports of  
20 operations, institutes improved financial reporting, and has three active committees  
21 reporting on key corporate practices and policies, all of which contribute to stronger

---

22           <sup>59</sup>T-2 at 26-27.

23           <sup>60</sup>*Id.* at 27.

24           <sup>61</sup>*Id.* at 27-28.

25           <sup>62</sup>*Id.*

26           <sup>63</sup>*Id.* at 28.

1 internal corporate practices and protect corporate assets and ratepayer interests.<sup>64</sup>

2 Because we previously determined that past statements related to the  
3 change of ownership do not restrict the recovery of reasonable corporate governance  
4 costs, because we find Gavora's explanation of the level of corporate governance costs  
5 in the test year credible and unchallenged, and because no party presented any  
6 evidence that a different level of corporate governance costs is more reasonable than  
7 the test year level, we will allow corporate governance costs in the amount of \$126,350.

8 **ORDER**

9 THE COMMISSION FURTHER ORDERS that the findings and  
10 conclusions contained in Order U-05-43(15)/U-05-44(15) regarding rate case expenses  
11 and corporate governance costs that are inconsistent with the findings and conclusions  
12 in this order are vacated and replaced with the findings and conclusions in this order.

13 DATED AND EFFECTIVE at Anchorage, Alaska, this 4th day of March, 2011.

14 BY DIRECTION OF THE COMMISSION



25 \_\_\_\_\_  
26 <sup>64</sup>T-2 at 28.



