

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

G. Nanette Thompson, Chair
Bernie Smith
Patricia M. DeMarco
Will Abbott
James S. Strandberg

In the Matter of the Tariff Rate Revision
Designated as TA268-18, TA271-18, TA275-18,
and TA279-18 Filed by MATANUSKA
ELECTRIC ASSOCIATION, INC.

U-00-173

ORDER NO. 7

**ORDER VACATING SUSPENSIONS, APPROVING PERMANENT
RATES, CLARIFYING COMPLIANCE REQUIREMENTS,
CONDITIONALLY ACCEPTING COMPLIANCE FILING, AND
REQUIRING FILING**

BY THE COMMISSION:

Summary

We vacate the suspensions of Matanuska Electric Association, Inc.'s (MEA) Simplified Rate Filing (SRF) reports filed as TA268-18, TA271-18, TA275-18, and TA279-18 and approve the rates proposed in these filings as permanent. We find that MEA has materially improved its SRF accounting and reporting processes, but we also find it necessary to clarify our requirements for excluding costs from the SRF revenue requirements. We accept MEA's compliance filing of its revised TA268-18 SRF calculation and explanation of revised accounting and reporting procedures, conditioned upon MEA further revising those procedures to reflect the clarification provided in this Order. We require MEA to file an updated version of its procedures with its 2001 annual operating report and in the future at any time it modifies those procedures.

Background

We determined that MEA had not been correctly reporting its SRF revenue requirements.¹ We directed MEA to modify its SRF accounting and reporting processes in order to identify costs required to be excluded from rates and to document costs included in rates. We provided direction to MEA with respect to costs that must be excluded from the SRF revenue requirements and required MEA to re-file its SRF report for the period ending September 30, 2000, corrected to reflect our decisions.

We suspended MEA's quarterly SRF filings and related tariff rate revisions for the periods ending September 30, 2000; December 31, 2000; March 31, 2001; and June 30, 2001 into this proceeding by Orders U-00-173(1), U-00-173(4), U-00-173(5), and U-00-173(6), respectively.² We suspended these filings so that we could determine if the proposed rates under these filings were just and reasonable and in accordance with our decisions in Order U-99-130(13).

Along with its revised SRF filing made on February 12, 2001, MEA filed a copy of a memorandum to its senior management³ dated January 30, 2001. The memorandum summarized revised procedures to be followed by MEA personnel for identifying and recording costs required to be excluded from rates in compliance with

¹Order U-99-130(13), dated January 12, 2001. Docket U-99-130 is entitled: *In the Matter of the Investigation into the 1998 revenue Requirement Study Filed by Matanuska Electric Association, Inc., and its Use of the Simplified Rate filing Process under AS 42.05.381(e) and 3 AAC 48.700-3 AAC 48.790.*

²Under 3 AAC 78.700, MEA participates in our SRF program and makes quarterly filings based on rolling twelve-month test periods.

³See MEA's *Filing in Compliance with the Requirements of Order U-99-130(13)*, filed in this proceeding on February 12, 2001.

1 Order U-99-130(13), as well as documenting certain costs MEA proposes to recover
2 through its rates.

3 Commission Staff (Staff) reviewed MEA's compliance filings and
4 conducted an on-site field review to determine if MEA has reasonably complied with
5 the requirements of Order U-99-130(13) in the preparation of its SRF filings. A copy of
6 Staff's recommendation is attached to this order as an appendix.

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8 Discussion

9 Based on Staff's recommendation, we believe that MEA has made a
10 good effort to comply with our requirements related to its quarterly SRF filings.
11 However, we concur with Staff that we should provide additional clarification. Staff's
12 recommendation also indicates it is unlikely that the suspended SRF revenue
13 requirements would be further adjusted to the extent that MEA would exceed its
14 authorized Times Interest Earned Ratio (TIER) by five percent for those filings.
15 Hence, there is no need to continue the suspensions of those filings. We vacate the
16 suspensions of TA268-18, TA271-18, TA275-18, and TA279-18 and make the rates
17 proposed in those filings permanent.

18 Staff's recommendation indicates that MEA has interpreted Order
19 U-99-130(13) to not require exclusion of certain costs it incurs in showing appreciation
20 to its employees for their service, as well as certain costs for employees other than
21 senior management for mileage, labor, and meals related to attending Chamber of
22 Commerce meetings and similar events for purposes which appear not to be directly
23 associated with utility business. We will clarify our expectations and reasoning with
24 respect to the necessity to remove these costs from the revenue requirement.

25 The incurring of costs related to rewarding, motivating, and generally
26 showing appreciation for employees is not in and of itself unreasonable. In fact, we

1 recognize that these costs may aid in recruiting and retaining talented employees and
2 possibly may even motivate higher levels of customer service.

3 However, we find that costs of this nature should not be included in the
4 ~~revenue requirement and recovered through rates for several reasons.~~ First, there is
5 no requirement or reasonable assurance that management will incur the same level of
6 these types of test period costs in future periods when the established rates will be in
7 effect. Second, ascertaining the specific benefit which ratepayers derive from costs of
8 this nature in excess of conventional salary and fringe benefits is very subjective and
9 difficult to measure. Third, the costs may in fact possibly be incurred in an arbitrary
10 and discriminatory manner with counterproductive results. Finally, inclusion of these
11 costs subjects the regulatory process to unreasonable complexity and increases the
12 cost of establishing fair and reasonable rates for producing utility service. Having
13 established our reasoning, we clarify for MEA its responsibility to remove employee
14 appreciation types of costs from rates.

15 In its recommendation, Staff has indicated it believes MEA is only
16 excluding costs related to attending Chamber of Commerce meetings and similar
17 events that are incurred by senior management, but not for all employees. We view
18 these costs as unnecessary for the provision of electric service, but rather more of a
19 promotional cost of the utility in maintaining goodwill in the community unless
20 attendance at these types of events is directly related to the provision of information by
21 MEA to MEA's members regarding electric service, cooperative business, or safety
22 matters. While perhaps laudable, we deem the cost of these activities as ineligible for
23 inclusion in the revenue requirement, absent a clear showing of utility purpose. The
24 exclusion of these costs from rates is appropriate whether incurred by senior
25 management or any utility employee.

1 We will accept MEA's February 12, 2001 compliance, but will require
2 MEA to implement modified procedures addressing SRF treatment of employee
3 appreciation costs and the costs incurred for employees other than senior
4 management to travel to and attend Chamber of Commerce meetings and similar
5 events. We also require MEA to amend its procedures memo⁴ to document its revised
6 practice of storing legal invoices offsite and to file a copy of its updated procedures
7 memo with its 2001 annual operating report and at any time it modifies the procedures
8 described in the memo. Finally, we give notice to MEA that future SRF filings may be
9 subject to onsite review and verification to ensure continued application of its revised
10 SRF processes.

11 **ORDER**

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13 THE COMMISSION FURTHER ORDERS:

14 1. The orders suspending Matanuska Electric Association, Inc.'s
15 TA268-18, TA271-18, TA275-18, and TA279-18 are vacated.

16 2. The rates proposed by Matanuska Electric Association, Inc., in
17 TA268-18, TA271-18, TA275-18, and TA279-18 are approved as permanent.

18 3. Matanuska Electric Association, Inc. is directed to adjust future
19 Simplified Rate Filing revenue-requirements to remove employee appreciation and
20 other costs not related to provision of electric service from rates as discussed in the
21 body of this Order.

22 4. Matanuska Electric Association, Inc. is directed to include a revised
23 and updated procedure related to its SRF processes, as discussed in the body of this
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25 ⁴See as Attachment B to MEA's compliance filing of February 12, 2001.
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1 Order, with its submission of its 2001 annual operating report, and at such time as
2 subsequent amendments occur.

3 5. Matanuska Electric Association, Inc.'s filing made February 12, 2001,
4 ~~in compliance with Order U-99-130(13), is accepted conditioned upon the filing of the~~
5 updated procedures required in Ordering Paragraph 4 above.

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DATED AND EFFECTIVE at Anchorage, Alaska, this 3rd day of January, 2002.

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9 BY DIRECTION OF THE COMMISSION
(Commissioners Patricia M. DeMarco,
10 and Will Abbott, not participating.)

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