RCA 2005

Regulatory Commission of Alaska

Annual Report
Fiscal Year 2005

Regulatory Commission of Alaska
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Message from the Chairman

Kate Giard
RCA Chair

We are pleased to report on RCA regulatory activities taking place from July 1, 2004 through June 30, 2005. In addition to reviewing those events taking place during fiscal year 2005, we also provide the Legislature with information regarding matters currently underway.

During the 2003 Legislative Session, after hearings and public testimony, the RCA was extended for an additional four years to 2007. The Legislature, during these hearings, indicated that the RCA needed to update its telecommunication policies, implement internal management improvements and adopt a more proactive relationship with its regulated industries and consumers.

While much of rewrite of the telecommunications policies started in 2004, work began in earnest during fiscal 2005 in all other areas. For the first time in the history of the RCA, we reached out to the public utilities and pipeline companies subject to regulation. We attended utility board meetings, met with utility and pipeline executives, sent staff into the field to better understand the operational aspects of the industries we regulate, involved regulated industries in regulations planning and statutory revision and sought the advice of the lawyers practicing before the RCA.

These collective actions were taken to understand and identify improvements necessary to become a more responsive regulatory agency. Concurrently, we completed an intensive internal evaluation of our organizational structure, our staffing requirements, our day-to-day operations and the systems we rely on to regulate nearly a billion dollars of economic activity within Alaska's public utilities and common carrier pipelines.

Now, over a year and a half later, we are achieving results from our internal realignment and our external efforts. As you will see throughout this report, our output has increased, our caseload is fresh, we have reduced our overhead, and our orders are being upheld on appeal.

In short, we are maintaining our reputation of quality decision-making while increasing our production. Before the end of fiscal 2006, we will purchase a new case management system and during fiscal year 2007, we will end our reliance on series of outdated legacy methods of performing our regulatory activities. This evolutionary move is critical to the RCA's success in its transition.

No enduring institutional change happens overnight. Rather, it is achieved through a series of thoughtful, prudent, systematic and well-vetted adjustments that can earn the support of Alaska's regulated industries, the Legislature and the public. We welcome your input into our work in progress and hope you enjoy reading about our efforts in this year's annual report.

Kate Giard, Chair
Regulatory Commission of Alaska

RCA Commissioners

Anthony Price	Mark Johnson	Kate Giard	Dave Harbour	James Strandberg
2004-2010	2003-2009	2003-2007	2003-2008	1999-2006

Funding

A Regulatory Cost Charge (RCC), a capped surcharge assessed to all regulated utility and pipeline customers, funds the Commission. The Commission's operating budget in fiscal year 2005 was $6.1 million; fiscal year 2004, $6.5 million; and fiscal year 2003, $6.0 million. In fiscal year 2005, the Commission reduced its overhead in anticipation of efficiencies to be derived from a case management system.

Core Services

The Regulatory Commission of Alaska's core services include issuing certificates for public utilities and pipelines, regulating the rates charged by certificated entities and evaluating the tariff rules and charges made by a regulated company, verifying the quarterly cost of power pass-through charges to consumers from electric and natural gas utilities, adjudicating disputes between ratepayers and utilities and shippers and carriers, managing emerging competitive markets, providing consumer protection services to utility ratepayers, developing regulations, and performing financial review for Alaska's power cost equalization (PCE) program.

Certificates of Public Convenience and Necessity

Alaska statutes require utilities with ten or more customers or pipelines providing intrastate service to be certificated by the RCA prior to providing utility service or constructing a pipeline. In order to receive a certificate, the requesting entity files an application with RCA. The RCA issues a certificate when it finds a service is in the public interest and an applicant is fit, willing, and able to provide that service. For utility applications, the RCA has six months, plus one 90 day extension option, to review and issue a final order on a complete application or the application is considered approved by force of law.

The distinction between obtaining a final decision from the RCA, as opposed to an application becoming effective by force of law, is important because the RCA can impose conditions addressing service quality, financial requirements, reporting requirements and other conditions designed to protect the ratepayer.

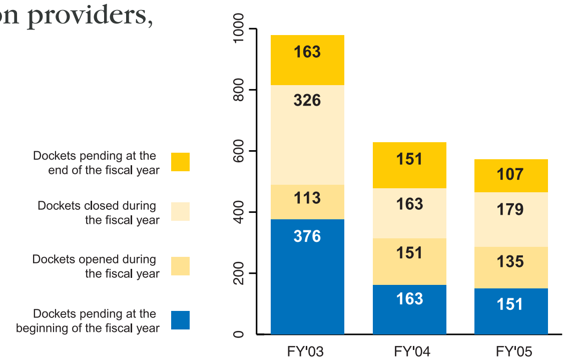
We issued final substantive orders on every application filed with the RCA during fiscal year 2005. No applications were approved by force of law.

As a result of the Commission's focus on timeliness, the fiscal year 2005 docket workload attained its lowest level since the creation of the Regulatory Commission of Alaska in 1999.

Economic Regulation

The Commission determines whether the rates charged or proposed by regulated entities are fair, just, and reasonable. Telecommunication providers, pipeline carriers, electric companies, and other utilities propose rate changes that may be contested by customers or other parties, including the Attorney General, whose office represents the public interest. When a rate is contested, the Commission functions like a court. A panel of three commissioners is assigned to hold an evidentiary hearing, listen to testimony from witnesses and experts, adjudicate results, and issue a final decision.

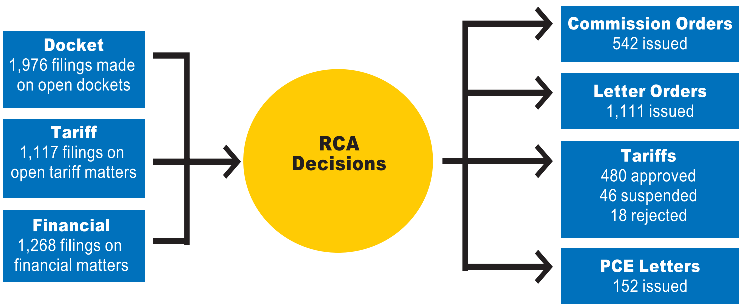
Docket Summary



The graph illustrates the Commission's focus on improving management procedures resulting in annual production improvements.

Annually, the RCA can receive between 150,000 to 200,000 pages of data, much of which requires Commission review, analysis and decision. Illustrated below are the inflows and outflows of filings addressed by the RCA during fiscal 2005.

RCA Activity Overview



Docket Activity

During fiscal 2005, we were presented with 135 new cases and closed 179 cases. Summarized below is a sampling of cases addressed during 2005.

Telecommunications

Order U-96-89(51): The Commission approved the interconnection and resale agreement between GCI and ACS of Anchorage. We concluded that the arbitrated agreement was consistent with our prior rulings in this docket and consistent with Section 252 of the Telecommunications Act of 1996 and that the prices and terms of interconnection were just and reasonable. This agreement established the price that GCI will pay for the use of ACS of Anchorage facilities to provide local exchange service in Alaska's largest metropolitan area, Anchorage.

Order U-03-63(5)/U-03-64(5): The Commission approved the interconnection and resale agreements between GCI and ACS of Alaska and ACS of Fairbanks. We concluded that the arbitrated agreements were not discriminatory to third parties and were consistent with the public interest, convenience, and necessity. These agreements affected the provision of competitive local exchange service in Alaska's second and third largest cities, Juneau and Fairbanks.

Order U-04-20(4): The Commission concluded that Matanuska Telephone Association, Inc., waived the rural exemption granted it by the Telecommunications Act of 1996 when it decided its affiliate, MTA Visions, should provide video programming over its network. The Commission required MTA to negotiate an interconnection agreement with GCI. This decision opened the rapidly growing Matanuska-Susitna Valley to competitive local exchange service.

Order U-04-42(2): The Commission granted, in part, the joint petition of the ACS companies, ACS Long Distance, and GCI to remove the operating restrictions placed on ACS of Anchorage, ACS of Fairbanks, and ACS of the Northland. The Commission concluded that operating restrictions were no longer necessary, in part, due to the existence of competition in the local exchange markets.

Natural Gas

U-03-84(10): On reconsideration, the Commission upheld the approval of the special contract between ENSTAR Natural Gas Company and NorthStar Energy Group, Inc. The special contract provided for the provision of gas to serve Homer, Alaska. The special contract is in effect for 20 years and is priced at the trailing 36-month average of the Average Daily Price of the Henry Hub Natural Gas Futures Index with a floor price of $2.74/mcf.

Electric

Order U-03-100(4): The Commission granted the joint petition for joint use and interconnection filed by Chugach Electric Association, Inc., Golden Valley Electric Association, Inc., Municipal Light & Power Department, and the City of Seward. The petitioners requested that the Commission require Matanuska Electric Association to continue the joint use and interconnection of its transmission line with the Alaska Intertie. The Intertie is the vital link between power resources in the northern and southern portions of the Railbelt. Electric customers along the Railbelt from Fairbanks to Seward were affected by the continued use of MEA's transmission line.

Pipeline

Quality Bank dockets. These are a series of dockets involving the Trans-Alaska Pipeline System (TAPS)Quality Bank, which is a method by which shippers of lower value oil compensate shippers of higher value oil for the difference in value. Of particular significance in this reporting period is the Administrative Law Judge (ALJ) decisions issued August 31, 2004 after a 9 month hearing held during 2002-2003. The hearing was concurrently held by this Commission and the Federal Energy Regulatory Commission (FERC), before each agency's ALJ. Our ALJ concurred with, and we later adopted by Order, the FERC ALJ decision which established the valuation of the various petroleum fractions. The decisions are important because they resolve all remaining issues in this case, which has been ongoing for 16 years.The decisions are currently under review at both the Commission and at FERC.

Cook Inlet Gas Gathering System (CIGGS). Opened in October of 2004, this docket involves a complaint filed by Agrium against Marathon Oil and Unocal, joint owners of CIGGS, alleging in part that they were by statutory definition public utilities by virtue of their current operation of CIGGS. Enstar, the State of Alaska, and Aurora Gas intervened in the docket. We issued Order P-04-20(5)/U-05-20(3) on April 22, 2005 finding Marathon and Unocal to be public utilities under AS 42.05. Although still an open docket subject to further proceedings, this order is significant because CIGGS has been in operation since about 1971 and had not previously been regulated by the Commission. We granted a comprehensive temporary exemption from regulation under AS 42.05 pending the resolution of this matter.

Kenai-Kachemak Pipeline (KKPL). The pipeline is approximately 48 miles long and interconnects with other pipelines, to gas fields on the Kenai Peninsula and to the Happy Valley natural gas prospect. After KKPL filed its initial rates on August 13, 2003, we opened a docket of investigation because there were significant issues of first impression regarding the determination of rates and service. Agrium, Marathon Oil, Unocal, Enstar, and the State of Alaska all participated in the docket. This was the first matter before the Commission under AS 42.06.350(c), enacted in 2000, which allows a pipeline carrier to charge different rates for firm and interruptible transportation service. The parties were able to reach a settlement, which the Commission approved subject to conditions, in Order P-03-12(21) issued May 25, 2005.

In fiscal year 2005, the Commission issued 467 substantive orders and 542 total orders, as illustrated in the chart below.

Orders Issued	FY'03	FY'04	FY'05
Substantive Final	-	149	137
Substantive Non-final	-	344	330
Total Substantive	711	493	467
Procedural	33	44	75
Total	**744**	**537**	**542**

In FY'03, the Commission did not separate substantive final and substantive non-final orders.
For FY'04 and FY'05, these statistics reflect the number of orders issued;
one order may involve multiple dockets.

The Commission is required to issue final orders in certain types of proceedings in a time period specified in AS 42.05.175. The Commission extended issuance of a final order in 6 dockets in fiscal year 2005, 15 dockets in fiscal year 2004, and 2 dockets in fiscal year 2003, due to requests from parties to extend the timeline or by a Commission decision to extend for good cause as allowed by statute.

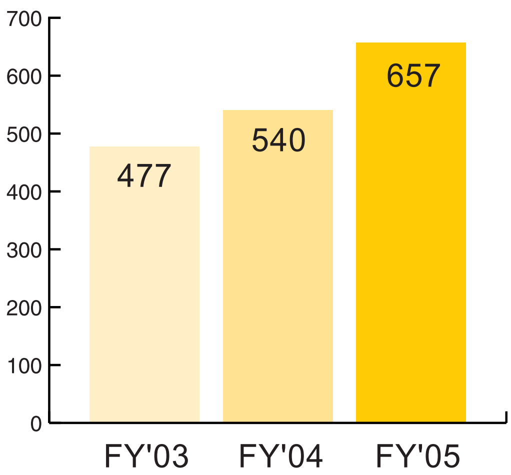
Power Cost Equalization Administration

The Commission works with the Alaska Energy Authority in administering the Power Cost Equalization program. The Commission determines the eligibility of rural electric utilities and calculates the kilowatt-hour subsidy paid for each utility participating in the program (AS 42.45.100 - 42.45.190). Over 183 small rural utilities submit annual cost information and fuel cost changes for Commission consideration under this program.

Tariff Review

Each regulated utility and pipeline carrier is required to operate under the terms of its Commission-approved tariff. The Commission is responsible for ensuring that a tariff contains fair and reasonable rates and practices that protect consumers while providing utilities and pipelines the opportunity to make fair returns on their investments. Revisions to a tariff are made through a Tariff Advice filing with the Commission. The review process for a filing, prescribed by AS 42.05.361 – AS 42.05.441, includes a period for public comment and allows the Commission to approve, reject, or suspend the tariff filing for further investigation.

Tariff Activity



For most utilities, the tariff review process takes 45 days. However, certain competitive utilities are allowed to file revisions that go into effect automatically after 30-days' public notice.

Consumer Protection Activities

The RCA's Consumer Protection staff fields an average of seven thousand phone calls and hundreds of written complaints annually from utility and pipeline ratepayers taking issue with their service. Some of these complaints result in the RCA opening an informal complaint case during which Consumer Protection staff will interact with both the ratepayer and the service provider to work toward resolution. During fiscal year 2005, staff opened 421 complaint cases and closed 401 complaint cases.

During fiscal year 2005, the Consumer Protection staff also facilitated the deregulation election of Kodiak Electric Association. Staff secured over 3800 election ballots, certified the election results, and determined that Kodiak Electric Association should be exempt from economic regulation according to the provisions of AS 42.05.712.

As part of the RCA's improvement effort, the Consumer Protection staff now engage in utility outreach by visiting on-site facilities of regulated utilities. Staff meets with various utilities' management staff, accounting and customer service staff, maintenance staff, and meter technicians which provides first-hand knowledge of how the utility operates and handles consumer complaints.

This outreach effort has also provided the RCA with more information to provide consumers and informs utility representatives about the consumer assistance program at the RCA.

Types of Consumer Complaints	FY'03	FY'04	FY'05
Telecommunications	517	200	213
Electric	54	52	80
Natural Gas	8	17	67
Refuse	12	6	17
Cable Television	3	0	0
Steam	1	0	0
Water & Wastewater	14	17	35
Total	**609**	**292**	**412**

Since July 1, 2004, Consumer Protection has visited ENSTAR Natural Gas Company, Homer Electric Association, Golden Valley Electric Association, Golden Heart and College Utilities, Alaska Communications System, and GCI Communications Corporation.

Legislative Resource

The Commission acts as a technical resource for the Governor, the Alaska Legislature, and the federal government. For example, during this fiscal year, the Commission provided the Federal Communications Commission advice on telecommunications policies and worked with the Federal Energy Regulatory Commission as it met its statutory requirement to develop gas pipeline open season regulations.

Regulations Development

In its quasi-legislative role, the Commission develops regulations for utilities and pipeline carriers in transacting their day-to-day business. All five commissioners, representing a broad public spectrum, hold public meetings and hearings to discuss proposed regulations and solicit comment on the regulations from industry and the public. The process of promulgating regulations is open to the public. This "rule-making" process can affect pipeline and utility rates and policies and are frequently contested by large numbers of industry participants or public advocates. During fiscal year 2005, the Commission promulgated the following regulations:

Telecommunications

R-97-7, Competitive Provision of Statewide Directory Assistance

Directory assistance allows consumers to get telephone numbers from operators. The Commission clarified the responsibility and obligations of carriers with regard to the provision of directory assistance and the maintenance of directory assistance data bases.

R-01-1, Access Charge Reform

Access charges are charges assessed by local exchange carriers for use of the local network to originate and terminate interexchange calls. The Commission completed its review of policies related to access charges, adopting a flat monthly fee assessment for local customers. The fee reduces long distance carrier costs, and is intended to lead to anticipated reductions in long distance rates and increased investment in Alaska telecommunications infrastructure.

R-01-2, Bundling of Telecommunications Services

Bundling is the practice of selling several services as a single package, with the purchase of more than one service being required to receive the (typically discounted) package price. The Commission adopted regulations that allow bundling in competitive markets. Carriers that include an intrastate interexchange service in a bundle must specify the intrastate interexchange rate and make the rate available statewide.

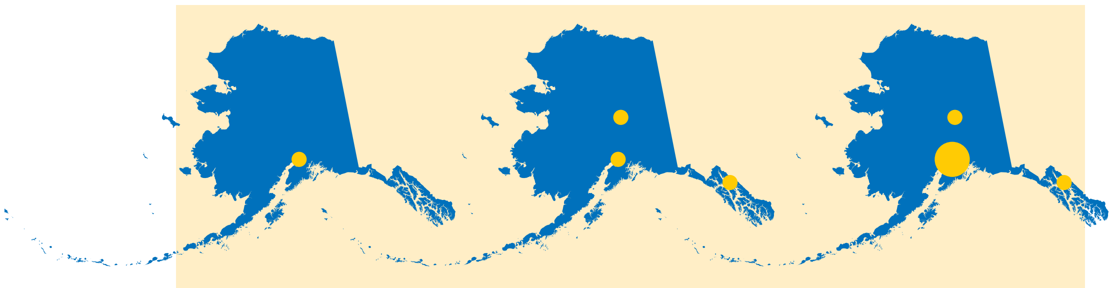
R-02-6, Local Exchange Service Competition

This docket involved a review of regulations governing local exchange competition. The Commission closed this docket after addressing including bundling practices, deferring the remaining local exchange service competition issues to Docket R-03-3.

R-03-3, Telecommunications Competition

This docket responds to a legislative directive to establish regulations that ensure the equal treatment of competing providers while also encouraging competition and the development of modern telecommunications infrastructure. The Commission adopted regulations to guide competitive telecommunications markets, reforming tariff processes and depreciation determinations while also providing greater flexibility for carriers to revise rates in competitive markets.

Growth of Local Competition in Alaskan Telecommunications



1997: Anchorage

2001: Anchorage, Juneau, Fairbanks

2005: Anchorage, Juneau, Fairbanks, Mat-Su

R-03-4, Petition for Waiver of Federal Unbundled Network Element Pricing Standards

After comments from interested parties, the Commission declined to petition the Federal Communications Commission for a waiver of the requirement that unbundled network element prices be set based on the Total Element Long Run Incremental Cost of the network element.

R-03-6, Lifeline and Link Up Policies

The Lifeline and Link Up programs improve access to basic telecommunications services by providing eligible low-income consumers with discounts for local phone service (Lifeline) and installation (Link Up). The Commission adopted a new income based eligibility standard for Lifeline services, certification procedures to document income based eligibility for Lifeline and Linkup enrollment, and verification procedures to ensure a customer's continued eligibility for Lifeline services.

R-03-7, Federal Triennial Review

This docket was opened in response to a Federal Communications Commission directive to determine whether certain rate elements for unbundled network elements should be retained within each state. Unbundled networks elements involve one telecommunications carrier use of another company's local exchange telecommunications facilities.The Commission determined that subsequent federal court decisions rendered it unnecessary for the Commission to respond to Federal Communications Commission directive.

Electric

R-03-2, Power Cost Equalization

This docket involved revisions the Power Cost Equalization program to clarify filing requirements and facilitate the monitoring of compliance with existing regulations. The Commission adopted regulations modifying filing requirements and addressing reporting requirements for nonregulated electric utilities.

General Utility

R-04-3, Replacement of Grant-Funded Plant

This docket involved the issue of whether to allow electric providers and water/wastewater utilities to include in rates an assessment for the eventual replacement of grant-funded plant. In this docket the Commission denied a joint petition filed by several interested parties, addressing the issue in Docket R044.

Ongoing Regulations Dockets

Telecommunications

Docket R-04-6, Impact of Federal Intercarrier Compensation Reform

This docket was opened in response to federal proceedings considering alternative methods for determining how one telecommunications carrier compensates another carrier for the use of its network. The Commission is reviewing the effects of these intercarrier compensation proposals on Alaskan telecommunications consumers and providers.

Docket R-05-1, Impact of the Consolidated Appropriations Act of 2005

This docket addresses potential reform to state regulations in response to federal legislation that addresses the interexchange market in Alaska. The federal legislation requires this Commission to treat all Alaskan interexchange carriers identically, with the goal of reducing regulation.

Electric

Docket R-03-5, Water-Power Development Projects

This docket was opened in response to state legislation requiring the Commission to establish a state regulatory program to license certain small water-power development projects.

Pipeline

Docket R-04-1, Treatment of Pipeline Dismantlement, Removal, and Restoral

This docket assesses the need for regulations governing the regulatory and accounting treatment of the dismantlement, removal, and restoration of oil and natural gas pipelines subject to our jurisdiction.

General Utility

Docket R-04-4, Replacement of Grant-Funded Plant

To ensure reliable electricity, clean water, and effective sanitation in all areas of the state, a broad public initiative is underway to fund with grants the construction and improvement of utility systems in rural areas. This docket addresses whether electric providers and water/wastewater utilities should be allowed to include in rates an assessment for the eventual replacement of grant-funded plant.

Docket R-04-5, Revisions to the Formula for Determining Regulatory Cost Charges.

Regulatory Cost Charges provide the funding for Commission operations, and are allocated among regulated public utility/pipeline sectors based on the relative amount of annual Commission costs attributable to regulating each sector. This docket was opened to amend existing regulations addressing the method of determining annually each regulated sector's regulatory cost charge rates.

2005

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