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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Mark K. Johnson, Chair  
Kate Giard  
Dave Harbour  
James S. Strandberg  
G. Nanette Thompson

In the Matter of the Consideration of )  
Regulations Governing Fuel Cost Adjustment )  
Clauses for Electric and Gas Utilities )

R-02-3<sup>1</sup>  
ORDER NO. 5

ORDER ADOPTING REGULATIONS

BY THE COMMISSION:

We adopted regulations concerning fuel cost adjustment clauses for gas and electric utilities.<sup>2</sup> We then transmitted those regulations to the Department of Law (DOL) for review. During its review, the DOL made stylistic changes, and proposed revisions to clarify vague language and remove internal inconsistencies.

We have incorporated those editorial changes and revisions. With these modifications, we adopted the edited regulations set out in the attached Appendix at our December 10, 2003 Public Meeting.

<sup>1</sup>Department of Law File No. 993-02-0138.

<sup>2</sup> Order R-02-3(4), *Order Adopting Regulations*, issued September 25, 2003.

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**ORDER**

THE COMMISSION FURTHER ORDERS, that, the regulations set out in the Appendix attached to this Order are adopted.

DATED AND EFFECTIVE at Anchorage, Alaska, this 11th day of December, 2003.

BY DIRECTION OF THE COMMISSION

( S E A L )

3 AAC 52.470(e) is amended to read:

(e) Upon entering into a contract with a nonregulated **vendor** [UTILITY], other than a contract with a qualifying facility as defined in 3 AAC 50.820(11), for the purchase of energy, including electrical energy or capacity, natural or manufactured gas, diesel oil or gasoline, or any other fuel source, for a term exceeding 12 months, a utility shall file with the commission the following information:

....

(Eff. 1/1/87, Register 100; am \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.05.291 AS 42.05.691  
AS 42.05.151

3 AAC 52 is amended by adding new sections to read:

**Article 6. Adjustment Clauses.**

{**Publisher:** *To reflect the introduction of new Article 6, please re-number existing Articles 6 and 7 as Articles 7 and 8*}

**Section**

- 501. Application and waiver
- 502. Criteria for adjustment clauses
- 503. Adjustment clauses for electric utilities
- 504. Filing requirements for electric utilities

- 505. Adjustment clauses for gas utilities
- 506. Filing requirements for gas utilities
- 507. Affiliated interest transactions
- 519. Definitions

**3 AAC 52.501. Application and waiver.** (a) Each electric utility subject to the regulatory jurisdiction of the commission must comply with the provisions of 3 AAC 52.501 - 3 AAC 52.504 and 3 AAC 52.507 - 3 AAC 52.519.

(b) Each gas utility subject to the regulatory jurisdiction of the commission must comply with the provisions of 3 AAC 52.501 - 3 AAC 52.502 and 3 AAC 52.505 - 3 AAC 52.519.

(c) Unless otherwise required under AS 42.05, a requirement in 3 AAC 52.501 - 3 AAC 52.519 may be modified or waived, in whole or in part, by order of the commission, on the commission's own motion or on a showing that the waiver or modification is in the public interest. A utility shall file and the commission will consider an application for waiver in accordance with 3 AAC 48.805. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.45.110 AS 42.45.160  
AS 42.05.151 AS 42.45.130 AS 42.45.170  
AS 42.05.381

**3 AAC 52.502. Criteria for adjustment clauses.** (a) Cost elements included in an adjustment clause must be

(1) subject to change at a rate that would cause financial harm to the utility if the costs were recovered exclusively in base rates;

(2) beyond the control of the utility; and

(3) easily verifiable.

(b) The commission will review cost elements included in a utility's adjustment clause in each general rate case. A utility may not include a cost element in its adjustment clause unless the commission has previously approved that cost element in a general rate case or in a separate tariff filing in accordance with 3 AAC 52.504(c) or 3 AAC 52.506(c).

(c) Notwithstanding (b) of this section, a utility with an approved adjustment clause on {*effective date of regulations*} may, unless the commission orders otherwise, continue to use its approved methodology and include all approved cost elements in its filings until its next general rate case. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.45.110 AS 42.45.160  
AS 42.05.151 AS 42.45.130 AS 42.45.170  
AS 42.05.381

**3 AAC 52.503. Adjustment clauses for electric utilities.** (a) A cost-of-power adjustment (COPA) for an electric utility must provide for an adjustment, per kilowatt-hour of sales, equal to the difference between the utility's cost of power included in its base rates and the utility's projected cost of power according to the following formula:

$$\text{COPA} = (\underline{C_p + B}) - C_b$$

$S_p$

where:  $C_p$  = the total projected cost of fuel and purchased power for the future period;  
 $B$  = the balance in the cost-of-power balancing account;  
 $S_p$  = the projected kilowatt-hour sales for the future period; and  
 $C_b$  = the base cost of power.

(b) In the formula set out in (a) of this section,

(1) the balance in the cost-of-power balancing account must be entered into the COPA calculation and derived on a monthly basis, with the following entries made:

(A) a debit entry equal to the actual monthly amounts for all cost elements approved for recovery under 3 AAC 52.502;

(B) a credit entry equal to the total number of kilowatt-hours sold during the month multiplied by the cost of power per kilowatt-hour included in base rates;

(C) a credit entry equal to the total number of kilowatt-hours of energy sold during the month multiplied by the actual COPA assessed during that month;

(D) additional entries that the commission approves on a showing of good cause;

(2) the total projected cost of fuel and purchased power for the future period, and the projected kilowatt-hour sales for the future period, must be projected for the future period defined in the utility's COPA methodology approved by the commission; and

(3) in a general rate case, the electric utility must reset the base cost of power; the reset base cost of power includes all test year fuel and purchased power costs that the

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commission approves for recovery through the COPA; however, an electric utility may propose, or the commission may require, that the base cost of power be set at zero, to permit the entire approved cost of fuel and purchased power to be recovered through the COPA. (Eff.

\_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.45.110 AS 42.45.160  
AS 42.05.151 AS 42.45.130 AS 42.45.170  
AS 42.05.381

**3 AAC 52.504. Filing requirements for electric utilities.** (a) An electric utility shall submit each COPA as a tariff filing in compliance with the applicable provisions of 3 AAC 48.200 - 3 AAC 48.380. With its first COPA tariff filing after {*effective date of regulations*}, an electric utility must submit a copy of each contract required under 3 AAC 52.470(d)-(e), if that contract is not already on file with the commission.

(b) An electric utility may implement a COPA filing that does not include a new methodology or new cost element immediately upon filing with the commission. The COPA filing is subject to subsequent review, adjustment, and approval by the commission.

(c) If an electric utility seeks, outside of a general rate case, to change its COPA methodology or include any new cost element in its COPA, it must first obtain the commission's approval. In a separate tariff filing, the utility must identify the proposed change in methodology and any new cost element. An electric utility must justify the proposed change in methodology and show that any new cost element meets the criteria of 3 AAC 52.502(a).

(d) For a COPA filing under (b) of this section, an electric utility is not required to give public notice under AS 42.05.411. However, if an electric utility seeks, outside of a general rate case, a change to its COPA methodology, a change to a COPA cost element, or a change to its COPA that the commission considers to be of significant interest to the public, the commission will require notice to the public in a form that the commission considers sufficient for the particular changes proposed.

(e) With each COPA tariff filing, an electric utility must identify the percentage change in the average cost of power and explain the reasons for the change.

(f) Within 45 days after the last day of any month in which the absolute value of the cost-of-power balancing account balance exceeds 10 percent of the electric utility's annual fuel and purchased power costs, the electric utility shall submit a COPA tariff filing.

(g) With each COPA tariff filing, the electric utility must submit the following information to support entries in the cost-of-power balancing account for the historical period and projections for the future period:

- (1) a copy of each invoice for costs recovered through the COPA;
- (2) records of monthly fuel inventories, and of changes to those inventories;
- (3) a report of actual monthly kilowatt-hour sales by customer class;
- (4) reports by unit of actual monthly
  - (A) gross kilowatt-hour generation; and
  - (B) station service;

(5) a report showing the actual monthly cost per kilowatt-hour for each fuel and purchased power source, and a brief explanation for any change in that cost;

(6) a report calculating the monthly margins for economy energy sales and the average price per kilowatt-hour for economy energy purchases;

(7) the COPA calculation;

(8) documentation in support of projected costs and sales for the future period;

(9) a calculation of monthly balances in the cost-of-power balancing account;

(10) revised tariff sheets;

(11) other information that the commission considers necessary to explain entries in the cost-of-power balancing account or to explain the proposed COPA calculation.

(h) The electric utility must submit the information required in (g) of this section on a 3.5-inch diskette or a compact disc, and in an electronic format compatible with the commission's data-processing equipment and software, unless the commission waives this requirement because the electric utility lacks a readily accessible means or the capability to provide items in the required electronic format.

(i) An electric utility may request, or the commission may order, the correction or adjustment of actual entries in the cost-of-power balancing account for a one-year period. The utility must describe, quantify, and justify each proposed adjustment. Unless the commission orders otherwise, an error must be corrected through an addition or subtraction to the cumulative over- or under-recovery balance. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141      AS 42.05.711      AS 42.45.160

AS 42.05.151

AS 42.45.110

AS 42.45.170

AS 42.05.381

AS 42.45.130

**3 AAC 52.505. Adjustment clauses for gas utilities.** (a) A gas cost adjustment (GCA) for a gas utility must provide for an adjustment, per Mcf of sales, equal to the difference between the utility's gas costs included in its base rates and the utility's projected gas costs according to the following formula:

$$GCA = \frac{(C_g + B)}{S_g} - C_b$$

where:  $C_g$  = the total projected cost of gas for the future period;

$B$  = the balance in the cost-of-gas balancing account;

$S_g$  = the projected Mcf sales for the future period; and

$C_b$  = the base cost of gas.

(b) In the formula set out in (a) of this section, the

(1) balance in the cost-of-gas balancing account must be entered into the GCA calculation and derived on a monthly basis, with the following entries made:

(A) a debit entry equal to the actual monthly amounts for all cost elements approved for recovery under 3 AAC 52.502;

(B) a credit entry equal to the total number of Mcf of gas sold during the month multiplied by the cost of gas per Mcf included in base rates;

(C) a credit entry equal to the total number of Mcf of gas sold during the

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month multiplied by the actual GCA assessed during that month; and

(D) additional entries that the commission approves on a showing of good cause;

(2) the total projected cost of gas for the future period, and the projected Mcf sales for the future period, must be projected for the future period defined in the utility's GCA methodology approved by the commission; and

(3) in a general rate case, the gas utility must reset the base cost of gas; the reset base cost of gas includes all test year gas costs that the commission approves for recovery through the GCA; however, a gas utility may propose, or the commission may require, that the base cost of gas be set at zero, to permit the entire approved cost of gas to be recovered through the GCA. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.45.110 AS 42.45.160  
AS 42.05.151 AS 42.45.130 AS 42.45.170  
AS 42.05.381

**3 AAC 52.506. Filing requirements for gas utilities.** (a) A gas utility shall submit each GCA as a tariff filing in compliance with the applicable provisions of 3 AAC 48.200 - 3 AAC 48.380. With its first GCA tariff filing after {*effective date of regulations*}, a gas utility must submit a copy of each gas supply contract required under 3 AAC 52.470(d)-(e), if that contract is not already on file with the commission.

(b) A gas utility may implement a GCA revision that does not include a new

methodology or new cost element immediately upon filing with the commission. The GCA filing is subject to subsequent review, adjustment, and approval by the commission.

(c) If a gas utility seeks, outside of a general rate case, to change its GCA methodology or include any new cost element in its GCA, the utility must first obtain the commission's approval. In a separate tariff filing, the utility must identify the proposed change in methodology and any new cost element. A gas utility must justify the proposed change in methodology and show that any new cost element meets the criteria of 3 AAC 52.502(a).

(d) For a GCA filing under (b) of this section, a gas utility is not required to give public notice under AS 42.05.411. However, if a gas utility seeks, outside of a general rate case, a change to its GCA methodology, a change to a GCA cost element, or a change to its GCA that the commission considers to be of significant interest to the public, the commission will require notice to the public in a form that the commission considers sufficient for the particular changes proposed.

(e) With each GCA tariff filing, the gas utility must identify the percentage change in the average cost of gas and explain the reasons for the change.

(f) Within 45 days after the last day of any month in which the absolute value of the cost-of-gas balancing account balance exceeds 10 percent of the gas utility's annual gas costs, the gas utility shall submit a GCA tariff filing.

(g) With each GCA tariff filing, the gas utility must submit the following information to support entries in the cost-of-gas balancing account for the historical period and projections for the future period:

- (1) a copy of each invoice for costs recovered through the GCA;
- (2) a report of gas volumes sold by customer class;
- (3) the GCA calculation;
- (4) documentation in support of projected costs and sales for the future period;
- (5) a calculation of monthly balances in the cost-of-gas balancing account;
- (6) revised tariff sheets;
- (7) other information that the commission considers necessary to explain entries

in the cost-of-gas balancing account or to explain the proposed GCA calculation.

(h) The gas utility must submit the information required in (g) of this section on a 3.5-inch diskette or a compact disc, and in an electronic format compatible with the commission's data-processing equipment and software, unless the commission waives this requirement because the gas utility lacks a readily accessible means or the capability to provide items in the required electronic format.

(i) A gas utility may request, or the commission may order, the correction or adjustment of actual entries in the cost-of-gas balancing account for a one-year period. The utility must describe, quantify, and justify each proposed adjustment. Unless the commission orders otherwise, an error must be corrected through an addition or subtraction to the cumulative over- or under-recovery balance. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority:	AS 42.05.141	<b><u>AS 42.05.711</u></b>	AS 42.45.160
	AS 42.05.151	AS 42.45.110	AS 42.45.170
	AS 42.05.381	AS 42.45.130	

**3 AAC 52.507. Affiliated interest transactions.** (a) If an electric or gas utility includes in its COPA or GCA costs from transactions with affiliated interests, the utility must file the following information with each adjustment clause tariff filing:

- (1) the identity of each affiliated interest;
- (2) a description of the relationship between the utility and the affiliated interest;
- (3) a list of the products and services provided to the utility by the affiliated interest;
- (4) the prices and quantity of products or services provided to the utility by the affiliated interest;
- (5) a list of alternative suppliers of the product purchased from the affiliated interest;
- (6) if applicable, a report showing which products or services provided to the utility by the affiliated interest are also supplied to other customers by the affiliated interest, including prices and quantities.

(b) The commission may investigate, in a general rate proceeding or a separate formal proceeding, the reasonableness of costs that are associated with affiliated interest transactions and are recovered in a utility's COPA or GCA. In addition to the information required under (a) of this section, upon commencement of a formal investigation, the utility shall file

- (1) a description of costs from affiliated interest transactions that the utility proposes to recover through the COPA or GCA;

(2) the computational methodology for the price the utility pays to the affiliated interest for the product or service; and

(3) a comparison of the price the utility pays to the affiliated interest with the prevailing market price, if any, and a comparison of other relevant characteristics, including quality and contractual terms and conditions. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.45.110 AS 42.45.160  
AS 42.05.151 AS 42.45.130 AS 42.45.170  
AS 42.05.381

**3 AAC 52.519. Definitions.** (a) In 3 AAC 52.501 - 3 AAC 52.519, unless the context requires otherwise,

(1) "adjustment clause" means a mechanism designed to recover changes in gas, fuel, and purchased power expenses; "adjustment clause" includes COPAs and GCAs;

(2) "affiliated interest" has the meaning given in AS 42.05.990;

(3) "base cost of gas" means a rate component that

(A) is used in the calculation of the GCA;

(B) reflects the gas cost per Mcf; and

(C) is included in the utility's base rates for gas service;

(4) "base cost of power" means a rate component that

(A) is used in the calculation of the COPA;

(B) reflects the cost per kilowatt-hour of fuel and purchased power; and

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(C) is included in the utility's base rates for electric service;

(5) "base rates" means the utility's currently effective rates for gas or electric service as authorized by the commission in the utility's last general rate case;

(6) "COPA" means a cost-of-power adjustment for an electric utility;

(7) "GCA" means a gas cost adjustment for a gas utility;

(8) "general rate case" means a proceeding, initiated by a filing with supporting information described in 3 AAC 48.275, in which the commission reviews a utility's costs and revenues to establish the utility's base rates and adjustment clause methodology;

(9) "Mcf" or "Mcf of gas" means one thousand cubic feet of gas measured at 60 degrees Fahrenheit and 14.65 pounds per square inch, absolute;

(10) "station service" means kilowatt-hour consumption by the utility to run the power house.

(b) Definitions set out in 3 AAC 48.820, 3 AAC 52.500, and 3 AAC 52.690 also apply to 3 AAC 52.501 - 3 AAC 52.519. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority: AS 42.05.141 AS 42.45.110 AS 42.45.160  
AS 42.05.151 AS 42.45.130 AS 42.45.170  
AS 42.05.381