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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 Application by ALASKA
POWER COMPANY to Amend Certificate of
Public Convenience and Necessity No. 2 to
Expand its Service Area to Provide Electric
Service to Slana, Alaska)
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U-04-12
ORDER NO. 1

**ORDER APPROVING APPLICATION, GRANTING WAIVER,
APPROVING TARIFF SHEETS AND CLOSING DOCKET**

BY THE COMMISSION:

Summary

We approve the application by Alaska Power Company (APC) for an amendment to Certificate of Public Convenience and Necessity (Certificate) No. 2 to expand regulated electric service to Slana, Alaska.¹ We grant APC a waiver of filing the pro-forma schedules required by application Form PU-101, approve tariff sheets and close this docket.

Background

On February 10, 2004, APC filed an application to amend its Certificate No. 2 to extend its service area to provide electric public utility service to Slana, and it

¹Application for Amendment to Certificate of Public Convenience and Necessity Number 2 (Application), filed February 10, 2004.

1 attached corrected tariff Sheet Nos. 1, 104, and 117. APC requested expedited
2 consideration of its *Application*, a waiver of the public notice requirement and a waiver
3 of filing pro-forma schedules.

4 We considered and denied APC's request to waive the public notice
5 requirement. The *Application* was noticed to the public on February 25, 2004, with a
6 closing date of March 26, 2004. There were no filings in response to the notice. On
7 March 9, 2004, APC filed corrected tariff Sheet Nos. 2 and 121. On March 30, 2004,
8 APC filed corrected tariff Sheet No. 18.2.

9 Discussion

10 In our review of APC's *Application*, we consider both the public need for
11 the service² and the ability of APC to provide the service.³

12 Public Convenience and Necessity

13 The community of Slana, Alaska is presently without centralized electric
14 service. APC proposes to construct generation and electrical distribution infrastructure
15 to serve approximately 65 Slana households that want reliable, centralized electric
16 service.⁴

17 APC will use U.S. Department of Energy (DOE) grants to intertie the
18 communities of Slana, Tok, Mentasta, and Chistochina. Since construction of the
19 system is funded by DOE grants, initial customers who applied for service before the
20

21 _____
22 ²According to AS 42.05.221, a public utility may not operate and receive
23 compensation for providing a commodity or service without first having obtained from
the Commission a certificate declaring that public convenience and necessity require
the service.

24 ³AS 42.05.241 requires that certificate may not be issued unless we find the
applicant fit, willing, and able to provide the proposed service.

25 ⁴*Application* at 4.

1 DOE grant award will not be required to provide Contributions in Aid of Construction.⁵
2 APC provided evidence of strong community support for the *Application*.⁶

3 APC offers to provide electrical service to a community that is currently not
4 being served. Because APC's expansion into Slana is grant funded, there will be very
5 little effect on cost of service for APC's existing customers. The utility proposes to
6 provide service under its existing tariff, which will offer reasonably priced power in an
7 area where only expensive self generation has been available. With these facts and the
8 community showing strong support, we find the public convenience and necessity
9 requires this service in Slana. We commend APC for bringing forward this public
10 interest rural electrification project.

11 Managerial and Technical Qualifications

12 APC employees have a long standing reputation of providing safe, quality
13 utility service since 1957. Through existing operations, APC has demonstrated its
14 managerial and technical qualifications in the operation of an electric utility service. The
15 *Application* contains the résumés of key management personnel now employed by APC
16 that indicate APC has the managerial and technical qualifications to operate an electric
17 utility. In addition to the management employees, a fully trained and qualified line crew
18 is based in Tok, approximately 53 miles away.

19 Financial Qualifications

20 The *Application* contains a DOE Notice of Financial Assistance Award
21 which indicates that DOE has obligated \$6,723,839 to the Tok-Chistochina & Upper
22 Canal Projects. The total project cost is \$19,472,000. Of the DOE funds, \$1,917,000 is
23 for the construction of the Slana distribution system.

24 ⁵*Application* at 5.

25 ⁶*Id.*

1 APC's financial condition, based on the January 31, 2001, and 2002

2 Balance Sheets filed with the *Application* is as follows:

| | <u>FY 2002</u> | <u>FY 2001</u> |
|-----------------------------|-------------------|-------------------|
| 3 a Revenue | 12,798,645 | 12,925,959 |
| 4 b Net Operating Profit | 1,378,643 | 1,598,749 |
| 5 | | |
| 6 c Current Assets | 34,340,372 | 32,405,083 |
| 7 d Other Assets | <u>264,353</u> | <u>1,006,152</u> |
| 8 e Total Assets | <u>34,604,725</u> | <u>33,411,235</u> |
| 9 | | |
| 10 f Current Liabilities | 87,547 | 188,325 |
| 11 h Other Liabilities | 17,902,975 | 17,987,350 |
| 12 i Equity | <u>16,614,203</u> | <u>15,235,560</u> |
| 13 j Total Liab. And Equity | <u>34,604,725</u> | <u>33,411,235</u> |

14 Based on the January 31, 2001, and 2002 Balance Sheets filed with the
15 *Application*, APC appears to be a profitable enterprise having sufficient assets to cover
16 its operations. APC asserts that extending its service area will not have any material
17 impact on existing rates because of the award of DOE funding. We therefore find that
18 APC is fit, willing, and able to furnish the proposed service.

19 Service Area

20 We approve APC's *Application* to extend its service area. APC provided
21 concise and clearly marked U.S. Geological Survey (U.S.G.S.) service area maps with
22 its *Application*.⁷

23 Request for Waiver

24 APC is a certificated utility in Alaska and files financial information with us
25 on an annual basis. In April of 2003, APC filed its annual report along with its audited
26 financial statements, and APC states that it is currently preparing for its annual audit.

⁷The revised service area descriptions will be attached as an appendix to APC's amended Certificate No. 2 to be issued in accordance with this Order.

1 APC argues that the addition of the Slana service area will not materially affect the
2 financial status of APC. APC proposes that Slana rates be established under its
3 present tariff Rate Group 5 (“Interior Villages”). APC also proposes that since Slana
4 and Chistochina are similar in many ways, APC use Chistochina data for Slana’s initial
5 COPA and PCE rates.

6 Form PU-101 requires *supplemental* financial data, such as a schedule of
7 operating revenues, operating expenses, plant-in-service, etc. The Form PU-101
8 pro-forma schedule has special instructions for applicants seeking an amendment to the
9 service area. The schedule focuses on the plant that is expected to be added as a
10 result of the amendment. The additional debt incurred to finance the new plant is also
11 tracked separately. Schedules 5 - 7 contain computational instructions which result in a
12 Revenue Requirement, Revenues and Over (Or Under) Recovery.

13 We want to ensure APC does not over-recover with the inclusion of the
14 large amount of contributed capital for Slana that is a part of the application. We
15 reviewed APC’s 2003 preliminary calculation filed with the “Request for 45 day
16 extension for filing Annual Report” and found the estimated achieved rate of return was
17 4.94 percent for 2003. We have authorized APC a rate of return up to 10.75 percent.

18 The significant APC under-recovery shown in the calculation allows us to
19 conclude APC will not over-recover by adding Slana to its operations. We therefore
20 grant APC a waiver of filing the pro-forma schedules required by application Form
21 PU-101. We agree with APC that this amendment to its service area will not materially
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1 affect the financial status of the utility. We find it reasonable that Slana rates be
2 established under APC's present tariff Rate Group 5 and agree that APC use
3 Chistochina data for Slana's COPA and PCE rates as an initial rate. We approve tariff
4 Sheet Nos. 1, 104 and 117 filed on February 10, 2004, tariff Sheet Nos. 2 and 121 filed
5 on March 9, 2004 and tariff Sheet No. 18.2 filed on March 30, 2004, effective the date of
6 this order.

7 With these determinations, no outstanding substantive or procedural
8 issues remain in this proceeding, and there are no allocable costs under AS 42.05.651
9 and 3 AAC 48.157. Therefore, this docket should be closed.

10 **ORDER**

11 THE COMMISSION FURTHER ORDERS:

12 1. The application filed by Alaska Power Company on February 10, 2004,
13 to amend Certificate of Public Convenience and Necessity No. 2 to extend its service
14 area to provide electric public utility service to Slana, Alaska, is approved.

15 2. We grant Alaska Power Company a waiver of filing the pro-forma
16 schedules required by the application.

17 3. Tariff Sheet Nos. 1, 104 and 117, filed on February 10, 2004; tariff
18 Sheet Nos. 2 and 121, filed on March 9, 2004; and tariff Sheet No. 18.2, filed on
19 March 30, 2004, by Alaska Power Company are approved, effective the date of this
20 Order.⁸

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⁸Validated tariff sheets will be mailed under a separate cover letter.
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4. Docket U-04-12 is closed.

DATED AND EFFECTIVE at Anchorage, Alaska, this 28th day of April, 2004.

BY DIRECTION OF THE COMMISSION
(Commissioners G. Nanette Thompson and
Kate Giard, not participating.)

(S E A L)