

Report Highlights

Why DLA Performed This Audit

In accordance with AS 24.20.271(11), the audit evaluates the accuracy of RCA's FY 15 annual report concerning statutory timelines, timeline extensions, and performance measures. This audit does not conclude on the effectiveness of RCA's decisions.

What DLA Recommends

The audit does not make new recommendations and considers the prior audit recommendation resolved.

A Performance Audit of the Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska FY 15 Annual Report

March 25, 2016

Audit Control Number: 08-30087-16

REPORT CONCLUSIONS

The Regulatory Commission of Alaska's (RCA) FY 15 annual report data for dockets, tariff filings, and statutory extensions was materially accurate. An analysis of case management system data and hard copy files concluded that the commission accurately reported its compliance with timeline requirements for utility, pipeline, and regulatory dockets; tariff filings; and statutory extensions. The auditors confirmed the performance measures relating to docket and tariff filing timelines, informal complaints, and consumer outreach were materially accurate.

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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June 24, 2016

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY,
AND ECONOMIC DEVELOPMENT
REGULATORY COMMISSION OF ALASKA
FY 15 ANNUAL REPORT

March 25, 2016

Audit Control Number
08-30087-16

We have conducted an audit of the Regulatory Commission of Alaska's (RCA) annual report in accordance with AS 24.20.271(11). RCA is required to annually report the performance measures it has adopted as well as its compliance with statutory timelines imposed on its activities. The purpose of the audit is to report on the accuracy of RCA's FY 15 annual report.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in black ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

ABBREVIATIONS

AAC	Alaska Administrative Code
ACN	Audit Control Number
AS	Alaska Statute
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
DLA	Division of Legislative Audit
FY	Fiscal Year
RCA or commission	Regulatory Commission of Alaska

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ORGANIZATION AND FUNCTION

Regulatory Commission of Alaska

The Regulatory Commission of Alaska (RCA or commission) is responsible for ensuring safe, adequate, and fair public utility and pipeline services. The commission fulfills its responsibilities by allowing regulated entities to charge user rates and provide services in a manner consistent with both the public and regulated entities' interests. The commission also ensures that the rates and services provided by these entities are consistent with the promotion of economic development. RCA has the authority to adopt regulations and to hold formal, quasi-judicial hearings to ensure its responsibilities are met.

The commission regulates pipeline, telephone, electric, natural gas, water, sewer, refuse, cable television, and heat services through a certification process. Public utility and pipeline companies must obtain certificates of public convenience and necessity which describe the authorized service area and scope of operations. A certificate of public convenience and necessity is issued when RCA formally finds an applicant to be fit, willing, and able to provide the service requested.

In addition to the certificate process, the commission may also economically regulate rates, classifications, rules, practices, services, and facilities of public utility and pipeline companies covered by statutes. The commission determines whether the rates being charged or proposed by regulated entities are fair, just, and reasonable.

All economically regulated utility and pipeline companies are required to maintain a tariff and operate under the terms of the tariff. Tariffs are the written terms, conditions, rules, and rates governing a company's conduct in providing public utility or pipeline services. The commission reviews all initial tariffs and tariff revisions.

Exhibit 1

Regulatory Commission of Alaska Members as of March 30, 2016

Robert Pickett, Chair
Term Expires March 2020

Stephen McAlpine
Term Expires March 2021

Rebecca Pauli
Term Expires March 2022

Norman Rokeberg
Term Expires March 2019

Jan Wilson
Term Expires March 2018

The commission records in docket the activities related to certifying and regulating public utility and pipeline companies, resolving formal complaints, and adopting regulations. These dockets are categorized into four types: utility, pipeline, complaint, and regulatory.

As shown in Exhibit 1, RCA consists of five commissioners. Commissioners are appointed by the governor, confirmed by the legislature for six year terms, and must either be a member of the Alaska Bar Association or have a degree in engineering, finance, economics, accounting, business administration, or public administration from an accredited university. The commission's staff includes the following: administrative law judges, engineers, financial analysts, consumer protection officers, paralegals, and administrative and support staff. RCA also receives legal advice from counsel assigned to it by the Department of Law.

RCA had 55 permanent and three non-permanent positions in its \$9.1 million FY 16 operating budget.

BACKGROUND INFORMATION

Alaska Statute 42.05.175(a)-(f) provides statutory timelines for tariff filings, and regulatory and utility dockets. Alaska Statute 42.05.175(i) addresses timelines for adjudicated utility docket matters that are not already subject to a timeline under federal law or AS 42.05.175(a)-(e). Exhibit 2 presents AS 42.05.175 timeline requirements.

Exhibit 2

Alaska Statute 42.05.175 Timelines

- (a) The commission shall issue a final order not later than 180 days after a complete application is filed for an application
 - (1) For a certificate of public convenience and necessity;
 - (2) To amend a certificate of public convenience and necessity;
 - (3) To transfer a certificate of public convenience and necessity; and
 - (4) To acquire a controlling interest in a certificated public utility.
 - (b) ... The commission shall issue a final order not later than 270 days after a complete tariff filing is made for a tariff filing that does not change the utility's revenue requirement or rate design.
 - (c) ... The commission shall issue a final order not later than 450 days after a complete tariff filing is made for a tariff filing that changes the utility's revenue requirement or rate design.
 - (d) The commission shall issue a final order not later than 365 days after a complete formal complaint is filed against a utility or, when the commission initiates a formal investigation of a utility without the filing of a complete formal complaint, not later than 365 days after the order initiating the formal investigation is issued.
 - (e) The commission shall issue a final order in a rule-making proceeding not later than 730 days after a complete petition for adoption, amendment, or repeal of a regulation...or, when the commission initiates a rule-making docket, not later than 730 days after the order initiating the proceeding is issued.
 - (f) The commission may extend a timeline required under this section if all parties of record consent to the extension or if, for one time only, before the timeline expires, the
 - (1) Commission reasonably finds that good cause exists to extend the timeline;
 - (2) Commission issues a written order extending the timeline and setting out its findings regarding good cause; and
 - (3) Extension of time is 90 days or less.
 - (i) In adjudicated docket matters that come before the commission under state law or federal law and are not subject to a timeline under federal law or (a)-(e) of this section, the commission shall issue a final order not later than 180 days after the filing of an initiating petition. If the matter is commenced on the commission's own motion, the commission shall issue a final order not later than 365 days after the issuance of an order opening the docket. This subsection does not apply to a complaint against a utility, a petition to revoke a certificate of public convenience and necessity, or a functionally equivalent filing.
-

Regulatory Commission of Alaska (RCA or commission) is required to publish an annual report about its activities and compliance with statutory timelines.

Alaska Statute 42.05.211 mandates that RCA publish an annual report concerning public utility services and performance measures, specifying:

The commission shall, by November 15 of each year, publish an annual report reviewing its activities during the previous fiscal year and notify the legislature that the report is available. The report must address the regulation of public utility service in the state as of June 30 and must contain details about the commission's compliance with the requirements of AS 42.05.175(a)-(e), with the timeline extensions made by the commission under AS 42.05.175(f), and with other performance measures established by the commission.

Similarly, AS 42.06.220 mandates that RCA annually report on pipeline activities and performance measures stating:

The commission shall, by November 15 of each year, publish an annual report reviewing its activities during the previous fiscal year and notify the legislature that the report is available. The report must address the regulation of oil and gas pipeline facilities in the state as of June 30 and must contain details about the commission's compliance with performance measures reported by the commission.

To address statutory reporting requirements, the commission publishes its utility and pipeline activities in one annual report. Performance measures are established annually by the commission and included in the annual report. RCA's FY 15 performance measures are noted in Exhibit 3.

Exhibit 3

RCA FY 15 Performance Measures

- Target #1: Review utility and pipeline filings for compliance with state and federal requirements within applicable timelines.
 - Target #2: Resolve informal complaints within established timelines.
 - Target #3: Participate in six consumer outreach events to educate rate payers about utility rates and services.
-

REPORT CONCLUSIONS

This audit evaluates the accuracy of the Regulatory Commission of Alaska's (RCA or commission) FY 15 annual report concerning statutory timelines, timeline extensions, and performance measures. This audit does not conclude on the effectiveness of RCA's decisions.

The audit concluded that RCA's FY 15 annual report data for dockets, tariff filings, and statutory extensions was materially accurate. An analysis of case management system data and hard copy files concluded that the commission accurately reported its compliance with timeline requirements for utility, pipeline, and regulatory dockets; tariff filings; and statutory extensions. The auditors confirmed the performance measures relating to docket and tariff filing timelines, informal complaints, and consumer outreach were materially accurate.

Management's efforts to strengthen quality control reviews of case management system data, update processes, and document procedures has improved the accuracy of the data used for the annual report. Management's efforts resolved prior audit findings regarding data inaccuracies.

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FINDINGS AND RECOMMENDATIONS

The audit of the FY 13 Regulatory Commission of Alaska (RCA or commission) annual report¹ contained one recommendation which stated that:

The commission's chair should continue to implement and enforce written procedures to ensure case management system data is consistent, complete, and accurately reflected in the annual report.

A similar recommendation has been included in each biannual audit of the annual report since FY 09.² The audit of the FY 13 RCA annual report found data errors rates of 21 percent and 50 percent, respectively, for tariff filings and regulatory dockets. The data errors were attributed to a lack of adequate training and a lack of ongoing quality reviews. At the request of the Legislative Budget and Audit Committee, the Division of Legislative Audit performed an informal review of tariff filings in April 2015. The informal review concluded tariff data errors continued to exist in the system.

The audit of the FY 15 annual report identified an improved internal quality review process had been implemented. Test work showed this process had been successful in addressing and correcting the accuracy of the data in the case management system. The audit found the data used to report compliance with timeline requirements and performance measures was materially consistent, complete, and accurately reflected in RCA's FY 15 annual report. The prior audit recommendation is considered resolved.

There are no new findings or recommendations as a result of this audit.

¹Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska, FY 13 Annual Report, ACN 08-30075-14.

²Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska, FY 09 Annual Report, ACN 08-30057-10.

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes, an audit was performed on the information pertaining to statutory timelines, timeline extensions, docket and tariff detail, and performance measures in the Regulatory Commission of Alaska's (RCA or commission) FY 15 annual report.

Objectives

The audit objective was to determine if the commission's FY 15 annual report accurately presents information regarding the timeline requirements of AS 42.05.175(a)-(e), commission timeline extensions implemented under AS 42.05.175(f), and the commission's adopted performance measures.

The commission's FY 15 annual report was examined to determine data accuracy for the reporting of:

- Utility, pipeline, complaint, and regulatory dockets;
- Tariff filings;
- Timeline extensions; and
- RCA-adopted performance measures.

Scope

Dockets and tariff filings that were in open status at any point during FY 15 were examined. These consisted of 244 utility dockets, 57 pipeline dockets, 10 regulatory dockets, 15 statutory extensions, 131 complaint dockets, and 509 tariff filings.

Methodology

Five separate random samples³ of docket and tariff filings were evaluated to determine the accuracy of the docket and tariff data presented in the commission's FY 15 annual report. The sample sizes were based on a low inherent risk and a moderate audit risk. For each sample, selected case management system data used to compile the annual report was compared to the commission's supporting

³The five separate samples consisted of the following: 12 random and two judgmentally selected utility dockets; three random and one judgmentally selected pipeline dockets; two random regulatory dockets; seven randomly selected complaint dockets; and 40 randomly selected tariff filings.

Methodology

records. The results of testing were projected across the population from which each random sample was selected.

All 15 timeline extensions were evaluated and compared to supporting records.

Performance measures reported in the commission's FY 15 annual report were evaluated for accuracy. The evaluation included:

- Examining the testing results of the case management system's data for dockets, timeline extensions, and tariff filings.
- Recalculating all performance measures reported in the FY 15 annual report.
- Inquiring of agency management concerning outreach activities completed during the year and examining third party program materials.

During fieldwork, we also:

- Examined the informal tariff filings review work conducted in April 2015 for planning purposes.
- Interviewed RCA management and responsible personnel to gain an understanding of case management system data and the information presented in the FY 15 annual report.
- Examined Alaska Statutes specific to RCA to determine statutory timeline and reporting requirements.
- Assessed control procedures over the case management system data.

Agency Response from the Department of Commerce, Community, and Economic Development



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of Commerce, Community,
and Economic Development**

OFFICE OF THE COMMISSIONER

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September 7, 2016

Kris Curtis, CPA, CISA
Legislative Auditor
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Legislative Budget and Audit Committee
Alaska State Legislature
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LEGISLATIVE AUDIT

RE: Confidential preliminary audit report on Department of Commerce, Community, and Economic Development (DCCED), Regulatory Commission of Alaska FY 15 Annual Report, March 25, 2016

Dear Ms. Curtis:

Thank you for the preliminary audit report regarding the examination of the Regulatory Commission of Alaska (RCA) FY 15 annual report. I appreciate your review and the opportunity to respond.

The department appreciates that the audit of the FY 15 annual report led to the conclusions that the RCA accurately reported its compliance with timeline requirements and that the annual report data for docket, tariff filings, statutory extensions and performance measures was materially accurate.

The department also appreciates that the preliminary audit report recognizes management's significant effort to ensure the accuracy of information in its case management system and considers the only previously unresolved recommendation¹ resolved. The department is pleased that the audit report contained no new findings or recommendations as a result of the audit of the RCA Fiscal Year 2015 annual report.

Again, thank you for the opportunity to respond to the preliminary report. If you have any additional questions, please contact me at 465-2500.

Sincerely,

A handwritten signature in blue ink, appearing to read "Chris Hladick".

Chris Hladick
Commissioner

cc: Robert M. Pickett, Chairman, Regulatory Commission of Alaska

¹"The commission's chair should continue to implement and enforce written procedures to ensure case management system data is consistent, complete, and accurately reflected in the annual report." *Department of Commerce, Community, and Economic Development. Regulatory Commission of Alaska, FY 13 Annual Report, Audit Control Number 08-30075-14.*

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Agency Response from the Regulatory Commission of Alaska



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Regulatory Commission of Alaska

Bill Walker, Governor
Chris Hladick, Commissioner
Robert M. Pickett, Chairman

August 29, 2016

Kris Curtis, CPA, CISA
Legislative Auditor
Division of Legislative Audit
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LEGISLATIVE AUDIT

RE: Confidential preliminary audit report on Department of Commerce, Community, and Economic Development (DCCED), Regulatory Commission of Alaska FY 15 Annual Report, March 25, 2016

Dear Ms. Curtis:

On August 23, 2016, the Regulatory Commission of Alaska (RCA) received the confidential preliminary audit report addressing the RCA's Fiscal Year 2015 annual report. You requested that a response address the Report Conclusions as well as the Findings and Recommendations.

The RCA appreciates the audit's conclusions:

- The annual report data for dockets, tariff filings, and statutory extensions was materially accurate.
- The RCA accurately reported its compliance with timeline requirements for utility, pipeline, and regulatory dockets; tariff filings; and statutory extensions.
- The performance measures relating to docket and tariff filing timelines, informal complaints, and consumer outreach were materially accurate.

The RCA also appreciates that the only previously unresolved recommendation contained in the audit of the FY 2013 RCA annual report is considered resolved. That recommendation stated "[t]he commission's chair should continue to implement and enforce written procedures to ensure case management system date is consistent, complete, and accurately reflected in the annual report."¹ The RCA has expended significant effort to ensure the accuracy of information

¹*Department of Commerce, Community, and Economic Development. Regulatory Commission of Alaska, FY 13 Annual Report, Audit Control Number 08-30075-14.*

Ms. Kris Curtis, CPA, CISA
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in its case management system. The preliminary audit expressly recognizes these efforts by stating “[m]anagement’s efforts to strengthen quality control reviews of case management system data, update processes, and document procedures has improved the accuracy of the data used in the annual report.” The RCA is also pleased that there are no new findings or recommendations as a result of the audit of its Fiscal Year 2015 annual report.

The RCA thanks the Division of Legislative Audit for a fair and honest evaluation. RCA management appreciates the fact that its efforts have “resolved prior audit findings” and also recognizes it must strive to continually maintain the standards that have been established.

Respectfully yours,



Robert M. Pickett
Chairman

cc: The Honorable Chris Hladick
Commissioner
Department of Commerce, Community & Economic Development