

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

T.W. Patch, Chairman  
Kate Giard  
Paul F. Lisankie  
Robert M. Pickett  
Janis W. Wilson

In the Matter of the Revenue Requirement and  
Cost of Service Study Designated as TA381-1  
Filed by ALASKA ELECTRIC LIGHT AND  
POWER COMPANY

U-10-29

ORDER NO. 15

**ORDER ACCEPTING PARTIAL STIPULATION, DETERMINING REVENUE  
REQUIREMENT AND RATE DESIGN ISSUES, APPROVING PERMANENT  
RATES, AND APPROVING TARIFF SHEETS**

BY THE COMMISSION:

Summary

We accept the unopposed partial stipulation filed in this matter. We determine the revenue requirement and rate design issues for Alaska Electric Light and Power Company (AEL&P).

Background

AEL&P filed TA381-1, requesting a 24 percent permanent across-the-board rate increase to base demand and energy charges.<sup>1</sup> This request was based upon a proposed revenue requirement of \$43,135,748 and projected revenue deficiency of \$15,827,289.<sup>2</sup> AEL&P asserted that this revenue deficiency justified a 59 percent increase in the base rates charged firm customers.<sup>3</sup> AEL&P proposed to mitigate this

<sup>1</sup> Tariff Advice Letter No. 381-1, filed May 3, 2010 (TA381-1), at 4.

<sup>2</sup> TA381-1 at 3; Revenue Requirement Study, Schedule 5.

<sup>3</sup> TA381-1 at 3.

1 the prudence of AEL&P's decision to build Lake Dorothy. AEL&P responded with  
2 argument and evidence supporting the prudence of its decisions.<sup>59</sup>

3 The Federal Energy Regulatory Commission (FERC) has developed an  
4 approach for addressing challenges to the prudence of costs incurred by a utility. Under  
5 that approach, a utility's costs are presumed to be prudently incurred. It is up to the  
6 party challenging prudence to make a substantial showing that the challenged costs  
7 were imprudently incurred.

8 The approach taken by the FERC is consistent with prior decisions from  
9 the Alaska Public Utilities Commission (APUC), our predecessor agency. In addressing  
10 a challenge to expenses incurred by Kenai Pipe Line Company the APUC stated, "It is  
11 an extraordinary measure for a regulatory agency to entirely disallow costs that were  
12 actually and necessarily incurred to provide service. A disallowance of such costs  
13 would normally be made when the costs are imprudently incurred by the carrier."<sup>60</sup>

14 Based on this guidance, we will review the arguments and evidence  
15 presented by J3P to determine whether they have created a serious doubt as to the  
16 prudence of AEL&P's decision to construct Lake Dorothy (and therefore incur  
17 expenditures). A management decision is imprudent if a reasonable manager would not  
18 have made that decision.<sup>61</sup> Only if J3P has created a serious doubt will we then  
19 proceed to determine whether AEL&P has dispelled this doubt and proven the decision  
20 prudent.

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22 <sup>59</sup>T-3 Willis Revised Reply; T-4 Perkins Revised Reply; T-6 McLeod Reply at 2-6;  
T-8 Hulbert Reply at 2-10.

23 <sup>60</sup>Order P-91-2(11)/P-85-1(19), *Order Prescribing Rate Base Methodology;*  
24 *Resolving Other Disputed Issues; Directing Kenai Pipe Line Company to File Revised*  
25 *Revenue Requirement and Rates for Period Beginning June 1, 1991; Striking DR&R*  
*Testimony; Establishing Schedule for Phase II of this Proceeding; and Extending*  
*Suspension Period*, dated December 1, 1992 (Order P-91-2(1)), at 47.

26 <sup>61</sup>Order P-91-2(11) at 47.