

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 Studies Designated as)
TA304-121, and the Tariff Filings Designated as)
TA306-121, TA309-121, TA310-121, TA311-121,)
and TA313-121 Filed by MUNICIPALITY OF)
ANCHORAGE d/b/a MUNICIPAL LIGHT AND)
POWER)

U-10-31

ORDER NO.15

**ORDER ESTABLISHING REVENUE REQUIREMENT AND
REQUIRING FILINGS**

BY THE COMMISSION:

Summary

We determine the revenue requirement for the Municipality of Anchorage
d/b/a Municipal Light and Power (ML&P). We require filings.

Background

ML&P filed TA304-121, requesting a permanent across-the-board
7.12 percent increase to base rate demand and energy charges.¹ ML&P also requested
an interim and refundable across-the-board rate increase of 5.7 percent to base rate
demand and energy charges if its request for permanent rate relief was suspended for
investigation.² ML&P further requested a tariff revision for termination of Schedule 26,

¹TA304-121, admitted March 21, 2011 (Ex. H-1), at 2, 4.

²*Id.*

1 financing flexibility or illiquidity.¹¹⁴ Zepp relies upon several studies indicating that
2 smaller firms are more risky equity investments than larger firms. Zepp argues that
3 higher ROEs are required as the size of the firm declines.¹¹⁵ In addition, Zepp states
4 that a utility facing a significant CIP faces more risky equity investment.¹¹⁶ Finally, Zepp
5 recommends that ML&P's equity risk is increased because it does not have access to
6 the public equity markets that the utilities in his benchmark samples do.¹¹⁷

7 Woolridge disputes Zepp's 80 basis point CRP. Woolridge believes that
8 ML&P's bond rating of A+ already takes into account all of the risk factors suggested by
9 Zepp.¹¹⁸

10 We believe the bond ratings are valuable indicators of the perception of
11 overall risk of an entity. However, we allow ML&P a risk premium in this proceeding to
12 account for the special risk associated with ML&P's CIP.¹¹⁹ While evidence in the
13 record illustrates that the bond rating agencies considered ML&P's CIP, Woolridge did
14 not provide us with comparable information about the CIPs of the proxy group of
15 companies used to determine ML&P's cost of equity. ML&P's CIP will ultimately nearly
16 triple ML&P's net plant,¹²⁰ without any expansion of its service area or customer base.
17 We believe that this fact alone provides sufficient justification for a premium.
18 Additionally and independently, ML&P stated repeatedly during the hearing, the
19 importance of maintaining its bond rating and the benefits that accrete to ratepayers

20 ¹¹⁴T-11 Zepp Direct at 9-18; Tr. 567-568.

21 ¹¹⁵T-11 Zepp Direct at 14-15.

22 ¹¹⁶*Id.* at 9, 16-17; Tr. 524, 546, 567.

23 ¹¹⁷T-11 Zepp Direct at 9, 17.

24 ¹¹⁸T-13 Woolridge Responsive at 6-7, 13, 88; Tr. 366, 369, 370.

25 ¹¹⁹Tr. 567, 683.

26 ¹²⁰EMP, Ex. 4 at 5.