

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Stephen McAlpine, Chairman
Rebecca L. Pauli
Robert M. Pickett
Norman Rokeberg
Janis W. Wilson

In the Matter of the Request Filed by the)
MUNICIPALITY OF ANCHORAGE d/b/a)
MUNICIPAL LIGHT & POWER DEPARTMENT for)
Approval to Establish Depreciation Rates)

U-16-094

In the Matter of the Tariff Revision Designated as)
TA357-121 Filed by the MUNICIPALITY OF)
ANCHORAGE d/b/a MUNICIPAL LIGHT &)
POWER DEPARTMENT)

U-17-008

PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON

I. INTRODUCTION.

Q1. Please state your name, business address, and present position for the record?

A1. My name is Anna C. Henderson. My business address is 1200 East First Avenue, Anchorage, Alaska 99501. I am the Regulatory Affairs Division Manager at the Municipality of Anchorage d/b/a Municipal Light and Power ("ML&P").

Q2. Are you the same Anna Henderson that filed direct testimony in this case?

A2. Yes.

September 22, 2017

Page 1 of 22

fs\MLPU-17-008\Testimony\Reply\Henderson\9-22-17)

Date: 11/16/17 Exh # T-5
Regulatory Commission of Alaska
U-16-094 By: B U-17-008
Northern Lights Realtime & Reporting, Inc.
(907) 337-2221

1 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

2 **Q3. What is the purpose of your testimony?**

3 A3. The purpose of my testimony is to respond to the prefiled responsive testimony of the
4 Federal Executive Agency's ("FEA's") witnesses Larry Blank, and Providence Health
5 and Services' ("PHS' ") witnesses Richard Beam and Mark Garrett.

6 **Q4. Please summarize your testimony.**

7 A4. My testimony consists of seven sections.

8 In Section III, I discuss the history of ML&P's rate increases.

9 In Section IV, I respond to requests for clarification related to cost of power
10 adjustment ("COPA")-related tariff changes.

11 In Section V, I respond to arguments about ML&P's proforma labor adjustment.

12 In Section VI, I respond to arguments about ML&P's Schedule 28 and 29 demand
13 ratchet.

14 In Section VII, I address arguments about ML&P's colocation arrangement with
15 the Anchorage Water and Wastewater Utility ("AWWU").

16 In Section VIII, I respond to arguments about ML&P's depreciation rates.

17 Finally, in section IX, I discuss necessary corrections to ML&P's revenue
18 requirement filing.

19 **Q5. Is ML&P submitting the prefiled reply testimony of any other witnesses?**

20 A5. Yes. In addition to my testimony, ML&P witnesses Mark Johnston, Eugene Ori, John
21 Reed, Robert Mudge, Gary Saleba, Bente Villadsen, and William Wilks are filing reply
22

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25 **PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON**

26 **Dockets U-16-094/U-17-008**

September 22, 2017

Page 2 of 22

f:\MLP\U-17-008\Testimony\Reply\Henderson\9-22-17)

1 testimony on behalf of ML&P.

2 • Mr. Johnston is ML&P's General Manager and policy witness who will
3 testify regarding ML&P customer relations and customer involvement, ML&P's rate
4 request, issues related to the prudence of Plant 2A, ML&P's Equity Management Plan
5 ("EMP"), proposals put forth by ENSTAR, and the contention that ML&P's proposed
6 rate stabilization plan ("RSP") constitutes retroactive ratemaking.

7 • Mr. Ori is ML&P's Acting Generation Division Manager and will discuss
8 Plant 2A.

9 • Mr. Reed is a prudence expert who will testify regarding ML&P's
10 decision to construct Plant 2A and address arguments about the debt service coverage
11 ("DSC") ratemaking methodology.

12 • Mr. Mudge is a utility rates and rate stabilization expert who will testify
13 regarding ML&P's proposed RSP.

14 • Mr. Saleba is a utility rates and planning consultant and cost of service
15 expert who will testify regarding ML&P's generation planning studies and cost of service
16 and rate design issues.

17 • Ms. Villadsen is a cost of capital expert who will testify regarding the
18 estimated cost of equity for ML&P.

19 • Mr. Wilks is a public utility expert who will testify regarding ML&P's
20 cash working capital requirements.

ML&P's witnesses Dane Watson and Bryant Robbins filed direct testimony, but are not filing reply testimony because their direct testimony was not addressed in any of the intervenors' responsive testimonies.

III. ML&P'S RATE HISTORY

Q6. What analysis of ML&P's rates have other intervenors presented?

A6. In his testimony, PHS witness Richard Beam uses his Figure 1, to describe a near doubling of electric rates between 2012 and 2017 with what he characterizes as a negligible increase in electric usage. In this analysis, PHS looks only at the nominal increase over the last five years. While it is true that ML&P's rates have increased significantly over the last five years, it is by no means indicative of "mismanagement" as PHS suggests. Instead, infrequent, relatively large rate increases are not unusual when a regulated utility must invest in a significant plant addition and is limited by regulation to when and how the costs of that plant can be recovered from customers.

Q7. When was the most recent period of significant plant additions for ML&P?

A7. Generally, it was in the 1980s with the addition of Units 6 and 7, both installed in 1979, and significantly Unit 8 in 1984.

Q8. What has the typical monthly bill for a large commercial – primary customer been over the last 30 years?

A8. Figure 1 shows the annual bill of a large commercial – primary customer from 1987 to present, including the interim rate increase in this docket, in nominal dollars and in inflation-adjusted 2017 dollars.

PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON

Dockets U-16-094/U-17-008

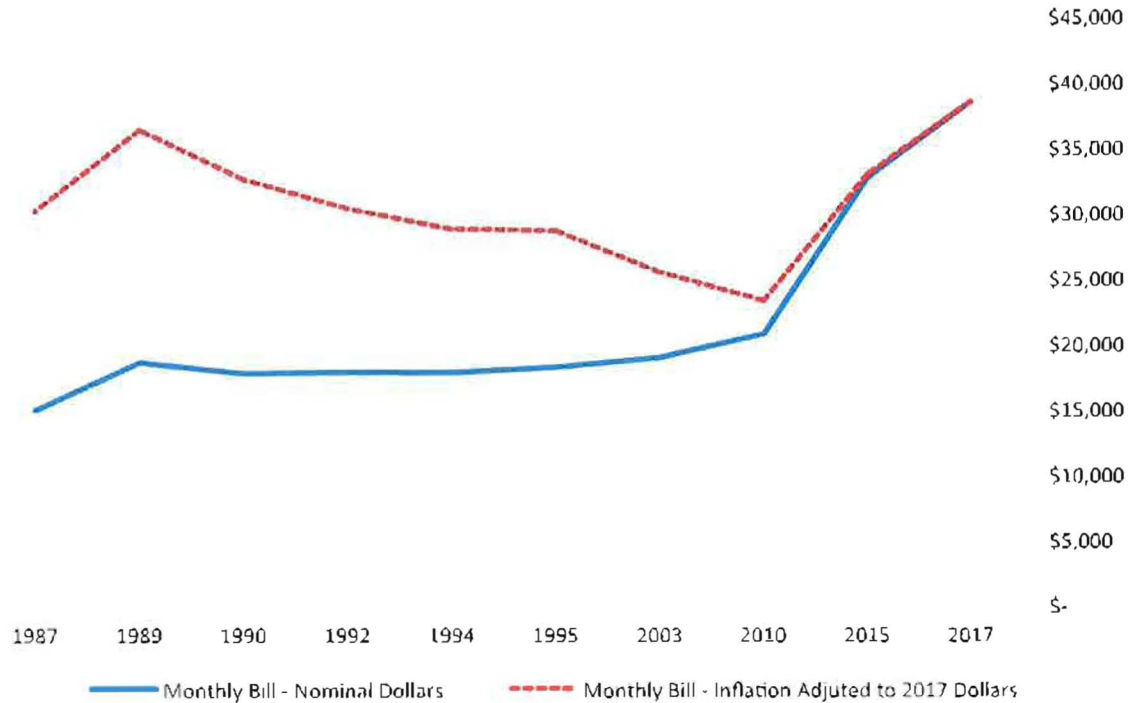
September 22, 2017

Page 4 of 22

fs\MLP\U-17-008\Testimony\Reply\Henderson\9-22-17)

Figure 1¹

Large Commercial - Primary Customer Monthly Billing History
 (Based on 250,000 kWh, 50kW and Average Annual COPA)



Q9. What has the typical monthly bill for a residential customer been over the last 30 years?

¹ Figures 1 and 2 are derived from permanent rate orders with the exception of U-17-008(1). CPI figures were obtained from <http://live.laborstats.alaska.gov/cpi/index.cfm>. All CPI figures are annual figures with the exception of 2017, which is based on the 1st half of the year. COPA is annual average of the rates for the calendar year with the exception of 1987, 1989, 1990 and 2017. 1987 is an average of the period 11/1/1986 - 12/31/1987. 1989 is an average of the period 1/1/1989 - 6/30/1990. 1990 is an average of the period 7/1/1990 - 12/31/1990. These three years had inconsistent time spans between filings. 2017 is the projected annual average COPA as estimated in Exhibit 17 to TA357-121.

PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON

Dockets U-16-094/U-17-008

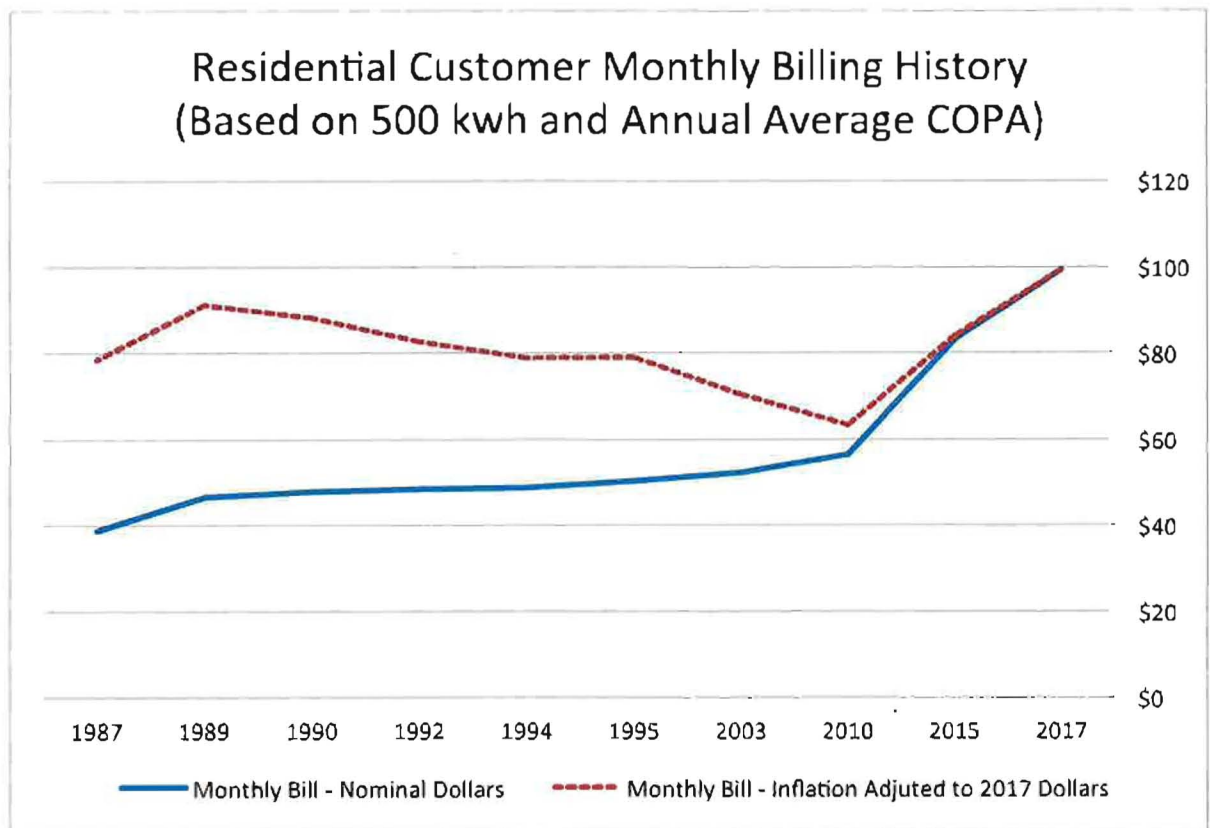
September 22, 2017

Page 5 of 22

fs\MLP\U-17-008\Testimony\Reply\Henderson\9-22-17

A9. Figure 2 shows the annual bill of a residential customer from 1987 to present, including the interm rate increase in this docket, in nominal dollars and in inflation-adjusted 2017 dollars.

Figure 2²



Q10. What caused ML&P's rates to increase significantly in the last 5 years?

A10. You can see from the preceding graphs that ML&P's bills increased in the 1980s as new generation was brought online, followed by years of relative rate stability. The recent

² See footnote 1.

PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON

Dockets U-16-094/U-17-008

September 22, 2017

Page 6 of 22

fs\MLP\U-17-008\Testimony\Reply\Henderson\9-22-17)

1 rate increases were caused primarily by the addition of plant in service associated with
2 ML&P's interest in the Southcentral Power Project ("SPP") and Plant 2A to replace
3 aging thermal generation.

4 **Q11. Why does ML&P experience large spikes in its rates when large generation**
5 **investments are placed in service?**

6
7 A11. Primarily, it is because ML&P is regulated under a traditional historical test year, rate
8 base / rate of return methodology. Recovery of an investment under this methodology is
9 based on depreciated original cost ("DOC"). A large portion (average 70% for the period
10 1998 to 2016) of ML&P's rate base is thermal generation assets. The result of applying
11 DOC ratemaking to a relatively large asset addition is discussed in the Direct Testimony
12 of Bob Mudge filed in this proceeding at pages 12 through 13.

13 **Q12. How often does ML&P need to replace its thermal generating units and why?**

14
15 A12. Every 30-40 years consistent with the design life of the thermal generating units.

16 **Q13. Does this mean that ML&P had a large portion of its thermal generation in its fleet**
17 **that was installed in the 70s and 80s?**

18 A13. Yes. A large portion of ML&P's generating fleet was installed between 1975 and 1985.
19 Unless ML&P modifies the replacement cycle, the next cycle will begin in approximately
20 2055. Figure 3 shows ML&P's rate base over time and demonstrates the increasing rate
21 base in the early to mid-1980s and the effect of the recent SPP and Plant 2A additions.
22

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25 **PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON**

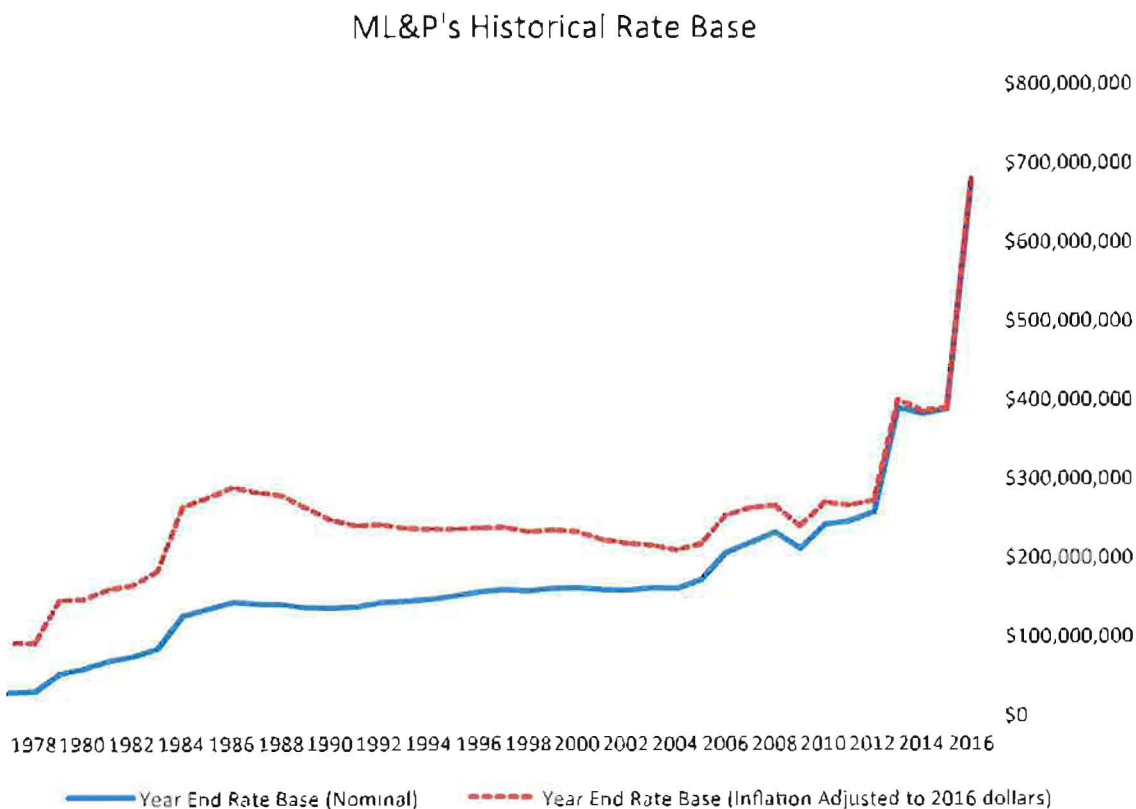
Dockets U-16-094/U-17-008

September 22, 2017

Page 7 of 22

26 fs\\MLP\\U-17-008\\Testimony\\Reply\\Henderson\\9-22-17)

Figure 3³



Q14. Couldn't ML&P anticipate the spike and begin to phase in the cost of the asset prior to the completion of construction in order to mitigate its rate increases?

A14. No. Established ratemaking principles in Alaska do not allow utilities to start recovering costs for an asset before it is placed into service. This means that ML&P must fund the construction and record the cost as Construction Work in Progress. The cost of the plant (including construction financing costs) are not included in the determination of revenue

³ Figure 3 is derived from year end net plant balances. CPI figures were obtained from <http://live.laborstats.alaska.gov/cpi/index.cfm>.

1 requirement until such time as it is placed in service and closed to plant, at which time it
2 may be recovered in rates.

3
4 **IV. COST OF POWER ADJUSTMENT TARIFF REVISIONS**

5 **Q15. Dr. Blank believes the formula on line 8 of tariff sheet 101.3.1 and 101.3.2 contains a**
6 **typo and should be corrected.⁴ Is Dr. Blank correct?**

7 A15. Yes, Dr. Blank is correct. The formula line (8) should read “(8) Total Feeder Input [(6) +
8 (7)]” in both sheet 101.3.1 and 101.3.2.

9
10 **Q16. Dr. Blank asks ML&P to clarify whether the “Secondary Loss Factor” found in the**
11 **tariff sheets formulae is actually the sum of these two loss rates.⁵ Can ML&P clarify**
12 **this?**

13 A16. Yes, ML&P can clarify. ML&P understands Dr. Blank’s testimony to seek clarification
14 on whether (for COPA) the proposed Secondary Loss Rate of 2.48% is “incremental” or
15 “composite.” I construe Dr. Blank’s use of the term “incremental,” to mean a loss rate
16 that should be added to the Primary Loss Rate of 0.28%, and “composite” to mean a loss
17 rate that includes the 0.28% Primary Loss Rate. Using this terminology, the Secondary
18 Loss Rate is composite: it is meant to include all losses from the feeder bus to the meter,
19 and therefore to include the Primary Loss Rate.
20

21
22
23 ⁴ Direct Testimony of Larry Blank at 23 (filed July 7, 2017).

24 ⁵ *Id.*

V. ML&P'S LABOR ADJUSTMENT

Q17. Please describe ML&P's proforma labor adjustment.

A17. ML&P's proforma labor adjustment adds \$409,343 to test year expenses for price level changes associated with changes in labor costs.

Q18. On behalf of PHS, Mr. Garrett urges the Commission to reject ML&P's labor adjustment. Please summarize Mr. Garrett's position.

A18. Mr. Garrett argues that ML&P's \$409,373 payroll adjustment is overstated because ML&P's 2016 total payroll costs (expense and capital) of \$27,892,764 was lower than the 2015 test year amount of \$28,865,287, by \$972,523.⁶

Q19. Is this similar to the argument PHS raised in Docket U-13-184?

A19. The labor adjustment ML&P proposes in this proceeding is conceptually identical to the labor adjustment ML&P proposed in Docket U-13-184, ML&P's last rate case. Exhibit ACH-2 is an excerpt of the relevant portions of Mr. Garrett's testimony in Docket U-13-184. In that case ML&P sought to increase 2012 test year labor costs by \$943,743 for pay raises that went into effect in 2013. Mr. Garrett argued that ML&P's proposed increase to payroll expense should be reversed, and the test year level be used instead because the post test-year actuals were lower than the test year amount.

Q20. How did the Commission respond to PHS's proposal in Docket U-13-184?

A20. The Commission rejected PHS' proposal in Order No. U-13-184(22) at 12-15. The

⁶ Garrett Testimony at 28-30.

Commission stated:

The pro forma adjustment proposed by ML&P is consistent with the approach we have ordered in the past. ML&P utilizes test-year employee levels and adjusts for pay increases that were known and measurable at the time it filed TA332-121. We decline to base our decision on evolving post test-year data as advocated by the AG and PHS. We approve the pro forma adjustment to labor and benefits costs proposed by ML&P.

Q21. Despite a decrease in total labor costs between 2015 and 2016, does ML&P expect its labor costs will increase in the future?

A21. Yes. At this time, ML&P has no plans to reduce its workforce nor does it foresee any wage reductions for its employees. Therefore, ML&P anticipates that its labor cost will increase with annual cost of living increases.

Q22. What is ML&P's response to Mr. Garrett's assertion that known and measurable changes can only be annualized within the test year?

A22. This is inconsistent with the practice in Alaska. It is my understanding that revenue requirements are determined based on a historic test year adjusted for changes that are known and measurable at the time of filing and which will be operative during the period the rates will be in effect.

VI. DEMAND RATCHETS FOR SCHEDULES 28 AND 29.

Q23. What does PHS argue with respect to the Schedule 28 and 29 demand ratchets?

A23. Docket U-15-097 established a tariffed rate schedule for self-generating customers between 25kw and 5MW. Mr. Garrett argues that there is a rate design issue that still

PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON

Dockets U-16-094/U-17-008

September 22, 2017

Page 11 of 22

fs\MLPU-17-008\Testimony\Reply\Henderson\9-22-17)

needs to be resolved in this rate case proceeding.⁷

Q24. Does ML&P believe that there are unresolved issues with respect to Schedule 28 and 29 rate design that need to be resolved in this case?

A24. No. In ML&P's opinion the issue raised by Mr. Garrett was resolved, to the extent possible, in Docket U-15-097. To go a step further, ML&P believes it is disingenuous for PHS to raise this issue in this docket while the Schedule 28 and 29 rates are still inception rates.

Q25. How were Schedule 28 and 29 rates developed?

A25. Q/A 34 of my direct testimony in Docket U-15-097 explains why ML&P is proposing new net requirements service rate schedules instead of standby service schedules, as follows:

As is explained in Mr. Saleba's testimony, cost-based standby service rate schedules may be the optimal, long-term option for facilitating self-generation through parallel operation of customer owned generation because they minimize the potential for unreasonable subsidization by non-self-generating customers. However, developing effective standby service rates would require historical data that do not currently exist and more time than is available in this docket.

ML&P's proposed net requirements service rate schedules are a more expedient alternative to standby service rate schedules. By incorporating the rates and most of the terms and conditions of ML&P's existing all requirements large general service rate schedules (Rate Schedules 22 and 23), ML&P's proposed net requirements rate schedules will

⁷ Garrett Testimony at 70.

promptly provide a means for large customers to meet part of their load requirements through self-generation. In addition, ML&P believes that the demand ratchet provision of its proposed net requirements schedules will likely mitigate much of that potential. In the future, ML&P will calculate individual cost-based net requirements service rates for Schedules 28 and 29 based on historical data. In addition, if actual historical data and analyses indicate that cost-based standby rates are required to avoid unreasonable subsidization, ML&P will develop such rates and request Commission review and approval of them.

Q26. What was Mr. Garrett's testimony in Docket U-15-097 in response to ML&P's proposal?

A26. In his testimony in that docket, Mr. Garrett asks himself: "In your opinion, are the rates proposed under the new Schedule 28 and 29 appropriate under the circumstances?" To which he responded "yes."⁸ He went on to elaborate that from a policy perspective this approach is particularly appropriate because it is neutral to energy efficiency measures taken by customers.⁹ Mr. Garrett goes on to testify that the Schedule 28 and 29 sufficiently protects existing customers and ML&P from potential underpayment from self-generating customers.¹⁰

In response to the quoted passage from my testimony in the preceding Q/A, Mr. Garrett's direct testimony at 29 states:

I agree with Ms. Henderson's testimony that net requirements service is the appropriate approach to promptly provide a means for customers like Providence to

⁸ See Exhibit ACH-3 at 2.

⁹ *Id.*

¹⁰ *Id.* at 2-3

1 meet a portion of their load requirements through
2 self-generation, as opposed to waiting years to collect data
3 to develop standby rates that may not even be needed.
4 Further, as Ms. Henderson points out, and as I discussed
5 earlier, the demand ratchet provisions of ML&P's proposed
6 net requirements tariffs will likely mitigate or even
7 eliminate any concerns that costs could shift to other
8 customers as a result of self-generation.¹¹

9 In addition, in cross examination by the Attorney General, Mr. Garrett was asked:

10 And your testimony didn't make any claims that the current
11 demand ratchet would overcompensate or undercompensate
12 ML&P, correct?

13 In response Mr. Garrett testified:

14 Right. My testimony was just that there's no indication
15 right now that we need a standby charge. I agree with what
16 ML&P did in this case with respect to the new schedules.
17 They didn't propose new rates. They didn't propose new
18 demand charge, new energy charge, different demand
19 ratchets; it's the exact same rates we pay now. I think that's
20 the right way to do it because otherwise you get into
21 piecemeal ratemaking. You're changing rates between a
22 rate case and you're not resetting everyone else's rates. It's
23 not fair. I think what they did was exactly the right thing to
24 do. We don't like the demand ratchet. I don't think any
25 customers do; but I think they had to include them because
26 they're included in the old rates.¹²

Q27. How does ML&P interpret Mr. Garrett's testimony in Docket U-15-097?

A27. ML&P interprets Mr. Garrett's testimony to accept the current rate design for
Schedule 28 and 29 as an appropriate way to design the rates, at that time, absent any
historical operational information that could help inform a more precise rate design.

¹¹ *Id.* at 4.

¹² Exhibit ACH-4 at 2-3.

1 **Q28. Is there any historical data that can be used to improve upon the rate design for**
2 **Schedule 28 and 29?**

3 A28. No. No ML&P customer has submitted an application for service under Schedule 28 or
4 29 since their creation.

5
6 **Q29. Why does ML&P believe it is misleading to raise the issue in this docket?**

7 A29. In Docket U-15-097, Mr. Garrett testified that, absent historical data, he agreed with
8 ML&P's rate design approach in that docket. In this docket, Mr. Garrett did not offer any
9 testimony to support his change in position. Mr. Garrett did not address what protections
10 will be afforded to ML&P and its other customers absent a demand ratchet. In addition,
11 in Docket U-15-097, Mr. Garrett agreed that the two logical choices for rate design are
12 net requirements or standby but argues that both are not necessary. Therefore it is
13 unclear why Mr. Garrett now takes the position that the demand ratchet is unreasonable
14 but not argue for a standby rate design consistent with his testimony in U-15-097, or at
15 least offer an alternate way to protect ML&P's customers from cross-subsidization. The
16 Commission should reject PHS' argument to remove the demand ratchet from Schedules
17 28 and 29.
18

19 **VII. THE ML&P/AWWU COLOCATON ARRANGEMENT**

20 **Q30. What does PHS argue with respect to the ML&P's colocation arrangement with**
21 **AWWU?**

22 A30. Mr. Garrett characterizes the colocation arrangement, for which ML&P pays nothing to
23
24

25 **PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON**

Dockets U-16-094/U-17-008

26 September 22, 2017

Page 15 of 22

f:\MLP\U-17-008\Testimony\Reply\Henderson\9-22-17)

1 AWWU, as an affiliated interest transaction subject to AS 42.05.511(c).¹³ He infers that
2 ML&P was obligated to inform the Commission of this arrangement and concludes that it
3 is unauthorized.¹⁴ Mr. Garrett argues that the benefits of this arrangement to AWWU
4 exceed the benefits to ML&P by \$1.7 million per year.¹⁵ Mr. Garrett recommends that
5 ML&P's revenue requirement be reduced by \$1.7 million, "as though ML&P were
6 receiving fair payment from AWWU."¹⁶ Conceptually, I believe that Mr. Garrett's
7 proposal would more accurately be characterized as an upward adjustment to revenue,
8 though the result in either case would be a reduction of \$1.7 million in ML&P's
9 calculated revenue deficiency.
10

11 **Q31. Does ML&P benefit from this arrangement?**

12 A31. Yes. Mr. Ori describes the colocation arrangement and explains how it benefits ML&P
13 in his testimony.
14

15 **Q32. How do you respond to Mr. Garrett's contention that the colocation arrangement**
16 **with AWWU is an affiliated interest transaction subject to AS 42.05.511(c)?**

17 A32. Alaska Statute 42.05.511(c) applies to arrangements between affiliates for "for the
18 furnishing any services or for the purchase, sale, lease, or exchange of any property."
19 The colocation arrangement does not involve the purchase, sale, lease, or exchange of
20

21 ¹³ Garrett Testimony at 75-76.

22 ¹⁴ *Id.* at 76, 80.

23 ¹⁵ *Id.* at 79.

24 ¹⁶ *Id.* at 80.

1 property. It is not clear to me whether ML&P is receiving a cooling "service" from
2 ML&P within the meaning of the statute; however, that issue need not be resolved,
3 because the arrangement clearly meets the statutory standard.
4

5 **Q33. Please explain your understanding of the statutory standard.**

6 A33. If the statute applies to a transaction, the utility bears the burden in a rate proceeding of
7 showing that the payment or consideration given is "reasonably based" by looking, in
8 part, on two considerations. The first is "the cost to the affiliated interest of furnishing
9 the service or property." The second is "the estimated cost the utility would have
10 incurred if it furnished the service or property with its own personnel and capital "
11

12 **Q34. Assuming for the sake of argument that AS 42.05.511(c) applies, how does the**
13 **colocation arrangement meet that standard?**

14 A34. The evident intent of the statute is to insulate ratepayers from excessive charges for
15 property or services received from affiliates. Under the statute, it seems clear that a
16 utility can satisfy its burden by showing that the payment or consideration paid by the
17 utility is both: (1) less than or equal to the cost to the affiliate of providing the service or
18 property; and (2) less than or equal to the cost to the utility self-providing the service or
19 property. ML&P pays nothing to AWWU for the cooling it receives from the colocation
20 arrangement. As Mr. Ori explains in his testimony, AWWU undoubtedly incurred costs
21 to colocate its facilities with ML&P's. As he also explains, ML&P would incur costs if it
22 were to self-supply cooling. Since ML&P's costs for the cooling is zero, the arrangement
23 satisfies the requirements of AS 42.05.511(c).
24

25 PREFILED REPLY TESTIMONY OF ANNA C. HENDERSON

26 Dockets U-16-094/U-17-008

September 22, 2017

Page 17 of 22

fs\MLPU-17-008\Testimony\Reply\Henderson\9-22-17)

1 Q35. How does Mr. Garrett's analysis relate to the considerations outlined in
2 AS 42.05.511(c)?

3 A35. Mr. Garrett's analysis does not address the considerations identified in AS 42.05.511(c).
4 Instead, Mr. Garrett relies on an analysis that he contends "is a fair basis to estimate the
5 proper payment, taking account of both ML&P's costs to provide the heat and AWWU's
6 cost if it were to provide the heat itself."¹⁷ Assuming, however, that ML&P receives a
7 "service" incident to the colocation arrangement, that "service" is cooling, not heat. Mr.
8 Garrett provides no analysis of AWWU's costs to provide cooling to ML&P, nor does he
9 address the costs to ML&P if ML&P were to supply cooling on its own. Even if he had,
10 it seems obvious that he would have found that the costs would have been greater than or
11 equal ML&P's cost of receiving this service from AWWU, which is zero.
12

13 Q36. Please respond to Mr. Garrett's contention that the colocation arrangement is
14 unauthorized.
15

16 A36. Mr. Garrett relies references an August 31, 2014, e-mail from AWWU's general manager
17 Brett Jokela regarding a "concept" of entering into a "water for heat" agreement with
18 ML&P, and stating that the sgreement would need to be "addressed" with the RCA.¹⁸
19 Mr. Jokela provides no explanation for this conclusion. While I am not an attorney, it is
20 not at all clear to me that such an arrangement would need to be approved or otherwise
21 "addressed" by the Commission, particularly if it did not involve payment to ML&P for
22

23 ¹⁷ Garrett Testimony at 80 (emphasis added).

24 ¹⁸ Exhibit MG-4 to Mr. Garrett's Testimony at 2.

1 waste heat. In any event, as Mr. Garrett recognizes, no such agreement was ever entered
2 into.¹⁹

3 Mr. Garrett then notes that AS 42.05.511(c) applies to “any written or unwritten
4 contract or arrangement” and then concludes that “the absence of a formal contract is no
5 excuse” for not notifying the Commission of the colocation arrangement.²⁰ The flaw with
6 Mr. Garrett’s argument is that AS 42.05.511(c) relates to proof required for cost recovery
7 in a rate case, and in no way imposes a requirement to notify the Commission of
8 contracts or arrangements with affiliates, regardless of whether they are written or
9 unwritten.
10

11 Mr. Garrett does not identify any other authority that could require utilities to
12 notify the Commission of a colocation arrangement. The flow of cooling and heat
13 incident to the colocation arrangement is not a type of utility service. Even if it were, it is
14 not a service provided to the public for compensation subject to Commission regulation.
15 In addition, it appears that the flow of cooling to ML&P may be entirely exempt from
16 Commission jurisdiction under AS 42.05.711(j).
17

18 **Q37. How should the Commission respond to Mr. Garrett’s proposal to reduce ML&P’s**
19 **revenue requirement by \$1.7 million?**

20 A37. It should be rejected. Mr. Garrett does not examine the factors set forth in
21 AS 42.05.551(c). Moreover, as Mr. Ori explains in his testimony, the analysis
22

23 ¹⁹ Garrett Testimony at 76.

24 ²⁰ *Id.*

1 Mr. Garrett relies on to quantify the amount he thinks AWWU should pay ML&P does
2 not, and was not intended to, value the respective benefits to ML&P and AWWU of the
3 colocation arrangement.

4 The colocation arrangement confers net benefits to ML&P and its customers. It
5 presumably also confers benefits to AWWU and, separately, to some portion of
6 AWWU's customers through reductions in their water heating costs. Though ML&P is
7 not privy to any benefits assessments by AWWU or its customers, this arrangement
8 appears to be "win-win." ML&P should not be penalized to the tune of \$1.7 million in
9 phantom revenue for taking a positive step to hold down its costs and the costs to its
10 customers.
11

12 **VIII. ML&P's DEPRECIATION RATES**

13 **Q38. What does PHS argue with respect to the ML&P's depreciation rates?**

14
15 A38. Mr. Garrett criticizes ML&P for not updating all of its depreciation rates, calling the rates
16 set in Docket U-12-149, ML&P's last full depreciation case, stale.²¹ Mr. Garrett
17 recommends that the Commission require ML&P to file an updated depreciation study in
18 its next rate case. ML&P requests that the Commission reject this proposal. ML&P
19 typically updates its depreciation rates outside of rate cases and is not aware of a required
20 timeline for updating depreciation rates. Regardless, ML&P plans to file its next
21 depreciation study in 2018, which would allow the depreciation rates determined in that
22 proceeding to be used in determining expense levels in ML&P next rate case.

23
24 ²¹ Garrett Testimony at 80.

1 **IX. CORRECTIONS**

2 **Q39. What corrections does ML&P need to make to its direct case?**

3 A39. ML&P discovered two issues when responding to RCA staff inquiries, and throughout
4 the course of the proceeding to date ML&P has uncovered two other issues.

5 **Q40. What issues did ML&P discuss with Commission staff after filing its direct case?**

6
7 A40. In response to January 6, 2017, staff questions, ML&P informed RCA staff that
8 Municipal Utilities Service Assessment ("MUSA") expense of \$7,538,022 was
9 inadvertently excluded from calculation of the 0.98 percent of cash operating expenses
10 working capital requirement. Including MUSA in the calculation changes the percentage
11 from 0.98 percent to 0.9198 percent. If the Revenue Requirement Study is modified to
12 use the .9198 percent, it reduces the revenue requirement and revenue deficiency by
13 \$5,353.

14
15 Second, the Revenue Requirement Study at Schedule 3 indicates a capital
16 structure of 64.6 percent debt and 35.4 percent equity.²² This capital structure is also
17 stated in my direct testimony at page 8. As ML&P advised Commission staff through a
18 January 17, 2017, supplement to TA357-121, the correct structure is 64.5 percent debt
19 and 35.5 percent equity, which is consistent with the consolidated year end 2015 capital
20 structure shown in the EMP.²³ The actual inputs to the excel Revenue Requirement
21 Model were 64.57 percent debt and 35.43 percent equity. Due to rounding in subsequent

22
23 ²² See TA357-121, Exhibit 7 at 3.

24 ²³ See TA357-121, Exhibit 12 at 9.

1 formulas, correcting those inputs to 64.50 percent debt and 35.50 percent equity does not
2 change the calculated weighted cost of capital or the required return shown on Schedule 2
3 of the Revenue Requirement Study.

4 **Q41. What other issues has ML&P discovered?**

5 A41. ML&P found that a portion of the 1 percent for Art costs associated with the artwork on
6 the north side of Plant 2A was included in the Plant 2A project costs included in ML&P's
7 revenue requirement. It was ML&P's intent not to seek rate recovery of these costs. As
8 of November 30, 2016, ML&P spent \$208,591 associated with the 1 percent for art
9 project. Removing the 13-month average of this amount from ML&P's filing would
10 result in reductions to return on rate base and depreciation expense in the amounts of
11 \$14,665 and \$5,987 respectively.
12

13 Finally, throughout the course of responding to discovery ML&P determined that
14 it did not make a synchronizing adjustment to MUSA expense as a result of the
15 retirement of generating units. ML&P agrees that proforma MUSA expense should be
16 adjusted downward by the \$98,890 in proforma MUSA expense associated with units that
17 were retired in connection with Plant 2A coming online.
18

19 **Q42. Does this conclude your testimony?**

20 A42. Yes.
21
22
23
24

Exhibit ACH-2

STATE OF ALASKA
THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

T.W. Patch, Chairman
Paul F. Lisankie
Robert M. Pickett
Norman Rokeberg
Janis W. Wilson

In the Matter of the Tariff Revisions, Designated)
as TA332-121, filed by the MUNICIPALITY OF)
ANCHORAGE D/B/A MUNICIPAL LIGHT)
AND POWER, for Permanent and Interim Rate)
Increases)
_____)

U-13-184

DIRECT TESTIMONY

OF

MARK E. GARRETT

**ON BEHALF OF
PROVIDENCE HEALTH & SERVICES**

MAY 9, 2014

Mark Garrett
Garrett Group LLC
Oklahoma City, Oklahoma

SECTION IV – OPERATING EXPENSE ISSUES

SECTION IV A. LABOR AND EMPLOYEE BENEFITS EXPENSE ADJUSTMENTS

1 **Q: HAVE YOU REVIEWED ML&P'S PROPOSED LABOR EXPENSE**
2 **ADJUSTMENT?**

3 A: Yes. ML&P's adjustment is based upon a calculation of \$1,110,102 for pay raises that
4 went into effect in 2013.³² These 2013 pay raises include: (1) a 3% wage increase for
5 IBEW employees effective January 2013; (2) a 2.6% wage increase for non-represented
6 employees also effective January 2013; (3) a 1.5% wage increase for executive
7 employees effective January 2013; (4) a 1.25% wage increase for all NECE employees
8 effective April 2013; and (5) a Performance Step Program (PSP) for select IBEW
9 employees effective January 2013.³³ ML&P allocates the total pay increase of
10 \$1,110,102 between capitalized costs and O&M expense. The pay increase allocated to
11 O&M expense of \$983,743 is recorded as a pro forma adjustment increase the test year
12 expense.

13
14 **Q: DO YOU AGREE WITH ML&P'S PROPOSED ADJUSTMENT?**

15 A: No. ML&P's adjustment proposes an increase to payroll expense based solely on the
16 nominal amount of pay raises awarded after the end of the test year. In other words,
17 ML&P's method assumes that payroll costs will increase by the same percentage amount
18 as the pay raise. This assumption is typically not accurate. ML&P's approach ignores
19 the fact that other events may decrease payroll levels by as much or more than the

³² Prefiled direct testimony of Anna C. Henderson at page 17.

³³ Id at 18.

1 projected increases associated with the raises. For example, changes in the number of
2 employees can have a significant impact on payroll costs. Even with a stable workforce,
3 employees are added to and removed from the payroll registers on a regular basis in the
4 ordinary course of business. Since retiring employees generally receive higher salaries
5 than new employees, overall payroll expense levels can actually go down even where the
6 utility awarded substantial salary increases. As a consequence, even if commissions are
7 inclined to accept adjustments for pay raises that occur outside the test year, they would
8 want to know if payroll levels actually increased by the amount of the pay raises.

9 Since payroll levels almost never increase by the nominal amount of a pay raise –
10 in other words, since a 2.0% pay raise does not result in a 2.0% increase in overall
11 payroll costs – it becomes necessary to calculate the *effective* impact of a pay raise in
12 some other way, if pay raises are included in a labor adjustment. Ideally, regulators will
13 annualize a utility's *actual* payroll cost levels after the raises are awarded, if there is a
14 prescribed period for post-test year adjustments.³⁴ Alternatively, an appropriate
15 methodology would be to review past payroll activity to determine the impact pay raises
16 have typically had on overall payroll expense levels in the past. The bottom line is that
17 regulators would want to evaluate the accuracy of any payroll adjustment that was based
18 solely on the nominal amount of pay raises awarded after test year end.

³⁴ For example, in Oklahoma, the Commission is required by law (Title 17 § 284) to give effect to known and measurable changes that occur within six months of test year end. Similarly, Nevada regulations prescribe a period for post-test-year adjustments [cite?].

1 Q: IS THERE A WAY IN THIS CASE TO EVALUATE THE ACCURACY OF
2 ML&P'S PROPOSED ADJUSTMENT?

3 A: Yes. In this case, we can look at actual results for 2013 to see if labor costs are indeed
4 higher than the 2012 test year levels by \$1,110,102 as ML&P's proposed adjustment
5 suggests. According to ML&P's 2013 FERC Form 1, filed as the 2013 Annual Report to
6 the Commission, labor costs actually went down in 2013. On page 354 of the 2012
7 report, Salaries and Wages costs are reported to be \$26,397,604. On the same page in
8 the 2013 report, Salaries and Wages are \$25,933,150, which is \$464,454 *lower* than the
9 2012 level, not \$1,110,102 higher. Based on this evidence, ML&P's proposed
10 adjustment to increase the test year payroll level is not justified.

11
12 Q: WHAT ADJUSTMENT ARE YOU PROPOSING AS A RESULT OF THIS
13 EVIDENCE?

14 A: I recommend that ML&P's proposed increase to payroll expense of \$983,743 be rejected
15 and that the test year level instead be used in the pro forma revenue requirement
16 calculations. ML&P's associated payroll tax adjustment should also be reversed. The
17 adjustments Providence recommends are set forth below, and shown at Exhibit MG2.3:

Table 7: Providence Adjustment to Labor Expense	
Adjustment to Reverse ML&P Proposed Labor Adjustment	\$983,743
Adjustment to Reverse Associated Payroll Taxes (Exh. 4, Sch.19, Adj. 2)	\$84,923

Exhibit ACH-3

STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

Before Commissioners:

T. W. Patch, Chairman
Stephen McAlpine
Robert M. Pickett
Norman Rokeberg
Janis W. Wilson

In the Matter of the Investigation into)
Reasonableness of the Requirements Contained)
In Section 114 of Appendix A to the Tariff)
Maintained by the MUNICIPALITY OF)
ANCHORAGE D/B/A MUNICIPAL LIGHT)
AND POWER DEPARTMENT)
_____)

U-15-097

DIRECT TESTIMONY

OF

MARK E. GARRETT

**ON BEHALF OF
PROVIDENCE HEALTH & SERVICES**

January 15, 2016

1 trigger a demand charge.

2 **Q46: In your opinion, are the rates proposed under the new Schedules 28 and 29**
3 **appropriate under the circumstances?**

4 A46: Yes. The proposed rates are appropriate in the sense that they are the same rates that
5 customers pay now under existing Schedules 22 and 23. This means that, under the new
6 Schedules 28 and 29, customers will pay the same amount they would have paid under
7 Schedules 22 and 23 for the amount of power they actually use from ML&P. This is
8 important from a ratemaking perspective because it would be inappropriate, between rate
9 cases, to change the rates for one customer class in a piecemeal fashion without resetting
10 the rates for all customer classes. ML&P's proposed approach avoids this problem.

11 The fact that customers under Schedules 28 and 29 will pay the same amount they
12 would have paid under Schedules 22 and 23 is important from a policy perspective because
13 net-requirements customers should not be penalized with higher rates for using less power
14 than what they used in the past. This approach is particularly appropriate because it is
15 neutral to energy efficiency measures taken by customers. Any ratemaking approach that
16 would charge customers higher rates for using less energy would be counterintuitive and
17 contrary to well-established energy efficiency and conservation goals. Customers should be
18 rewarded, not punished, for using valuable resources more efficiently.

19 **Q47: Do the proposed new Schedules 28 and 29 sufficiently protect ML&P and existing**
20 **customers from potential underpayment from customers using these schedules?**

21 A47: Yes. The only difference is that the customers using these schedules will likely buy less
22 power from ML&P in the future as net requirements customers than they purchased in

Exhibit ACH-4

1

STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA

2

Before Commissioners: Robert M. Pickett, Chairman
Stephen McAlpine
Rebecca L. Pauli
Norman Rokeberg
Janis W. Wilson

5

6

7

8

In the Matter of the Investigation into)
Reasonableness of the Requirements Contained)

9

In Section 114 of Appendix A to the Tariff) U-15-097
Maintained by the MUNICIPALITY OF ANCHORAGE)

10

D/B/A MUNICIPAL LIGHT AND POWER DEPARTMENT)

_____)

11

12

13

REGULATORY COMMISSION OF ALASKA
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501

14

15

16

PUBLIC HEARING

March 30, 2016

17

9:09 a.m.

18

19

BEFORE JEFFREY F. DAVIS
Administrative Law Judge

20

21

22

23

24

25

1 lines 1 through 3 at the top of the page.

2 A Yes.

3 Q Basically there you state: "Further,
4 there is no indication at this time that
5 ML&P's proposed rates with the 11-month
6 demand ratchets included will not fully
7 compensate the utility for service provided
8 under the new tariffs."

9 Did I read that correctly?

10 A Yes.

11 Q And your testimony didn't make any
12 claims that the current demand ratchet would
13 overcompensate or undercompensate ML&P,
14 correct?

15 A Right. My testimony was just that
16 there's no indication right now that we need
17 a standby charge. I agree with what ML&P did
18 in this case with respect to the new
19 schedules. They didn't propose new rates.
20 They didn't propose new demand charge, new
21 energy charge, different demand ratchets;
22 it's the exact same rates we pay now. I
23 think that's the right way to do it because
24 otherwise you get into piecemeal ratemaking.
25 You're changing rates between a rate case and

1 you're not resetting everyone else's rates.
2 It's not fair. I think what they did was
3 exactly the right thing to do. We don't like
4 the demand ratchet. I don't think any
5 customers do; but I think they had to include
6 them because they're included in the old
7 rates.

8 Q Thank you.

9 MR. WALLER: I have nothing
10 further.

11 ALJ DAVIS: ANTHC.

12 MS. GROVIER: No questions, Your
13 Honor.

14 ALJ DAVIS: Commissioner Pickett.

15 CHAIRMAN PICKETT: It is good to
16 see you again. You were a personal aide to
17 Commissioner Bob Anthony of the Corporation
18 Commission in Oklahoma?

19 THE WITNESS: I was.

20 CHAIRMAN PICKETT: Back in
21 exciting times.

22 THE WITNESS: Absolutely.

23 CHAIRMAN PICKETT: He's a good
24 friend and I've had numerous conversations
25 with him about that.

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Stephen McAlpine, Chairman
Rebecca L. Pauli
Robert M. Pickett
Norman Rokeberg
Janis W. Wilson

In the Matter of the Request Filed by the)
MUNICIPALITY OF ANCHORAGE d/b/a)
MUNICIPAL LIGHT & POWER DEPARTMENT for)
Approval to Establish Depreciation Rates)

U-16-094

In the Matter of the Tariff Revisions, Designated as)
TA357-121, filed by the MUNICIPALITY OF)
ANCHORAGE d/b/a MUNICIPAL LIGHT &)
POWER DEPARTMENT)

U-17-008

EXPERT DISCLOSURES FOR ANNA C. HENDERSON

1. *Statement of all opinions to be expressed and the basis and reasons therefor.*

In my prefiled reply testimony dated September 22, 2017, I respond to the prefiled responsive testimony of the Federal Executive Agency's ("FEA's") witnesses Larry Blank, ENSTAR's witness Dan Dieckgraff, and Providence Health and Services' ("PHS") witnesses Richard Beam and Mark Garrett. The substance of my testimony consists of seven sections. Sections I and II provide an introduction and state the purpose of my testimony. In Section III, I discuss the history of ML&P's rate increases. In Section IV, I respond to requests for clarification related to the COPA related tariff changes. In Section V, I respond to arguments about ML&P's proforma labor adjustment. In Section VI, I respond to arguments about ML&P's Schedule 28 and 29 demand ratchet. In Section VII, I respond to arguments about ML&P's colocation agreement with AWWU. In Section VIII, I respond to arguments about

September 22, 2017

Page 1 of 4

fs\MLP\U-17-008\Ttestimony\9-22-17

1 ML&P's depreciation rates. Finally, in Section IX, I discuss necessary corrections to ML&P's
2 revenue requirement filing.

3
4 **2. Data or other information considered in forming the opinions.**

5 I have considered the Regulatory Commission of Alaska ("Commission")
6 regulations including 3 AAC 48.275 and statutes, including AS 42.05.441(c) and
7 AS 42.05.511(c). I have also considered the Commission Order No. U-13-184(22); and all other
8 data and information referred to in my prefiled direct testimony.

9
10 **3. Exhibits to be used as a summary of or support for the opinions.**

11 I support my testimony with the following exhibits:

- 12 • Exhibit ACH-2: Direct Testimony of Mark E. Garrett, Docket U-13-184,
13 May 9, 2014;
- 14 • Exhibit ACH-3: Direct Testimony of Mark E. Garrett, Docket U-15-097,
15 January 15, 2016;
- 16 • Exhibit ACH 4: Public Hearing Transcript, Docket U-15-097, March 30,
17 2016;
- 18 • Exhibit 7 to TA357-121, the RRS and all attached schedules; and
- 19 • Exhibit 13 to TA357-121, Lead-Lag Study.

20 **4. Qualifications of the witness, including a list of all publications
21 authored by the witness within the preceding ten years.**

22 Please see Exhibit ACH-1 to the Prefiled Direct Testimony of
23 Anna C. Henderson, December 30, 2016.

24
25
26 EXPERT DISCLOSURES FOR ANNA C. HENDERSON
Dockets U-16-094/U-17-008

September 22, 2017

Page 2 of 4

fs\MLP\U-17-008\Testimony\9-22-17

I am employed by ML&P as the Regulatory Affairs Division Manager and am paid on a salaried basis for performing the duties of that position. I have not and will not receive any additional compensation from ML&P as a result of my testimony in these proceedings.

I have submitted prefiled testimony in the following dockets:

- I also testified at hearing in Docket U-16-012.

DATED this 22nd day of September, 2017.

By: /s/ Anna C. Henderson
Anna C. Henderson

CERTIFICATE OF SERVICE

I hereby certify that on September 22, 2017, a copy of the foregoing document was served on the following persons by electronic means authorized by the RCA.

KEMPEL, HUFFMAN AND ELLIS, P.C.

By: /s/ Tina M. Torrey

Tina M. Torrey, Legal Assistant

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EXPERT DISCLOSURES FOR ANNA C. HENDERSON

Dockets U-16-094/U-17-008

September 22, 2017

Page 4 of 4

fs\MLP\U-17-008\Testimony\9-22-17