

STATE OF ALASKA

THE 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 Tariff Revision Designated as)
TA332-121 Filed by the MUNICIPALITY OF)
ANCHORAGE D/B/A MUNICIPAL LIGHT AND)
POWER DEPARTMENT)

U-13-184

ORDER NO. 22

In the Matter of the Investigation Into the)
Appropriate Use of the Deferred Regulatory)
Liability From Gas Sales Fund Maintained by the)
MUNICIPALITY OF ANCHORAGE D/B/A)
MUNICIPAL LIGHT AND POWER)
DEPARTMENT)

U-15-096

ORDER NO. 1

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

ORDER NO. 1

**ORDER ACCEPTING STIPULATION ON CERTAIN DISPUTED ISSUES, RESOLVING
REMAINING DISPUTED ISSUES, ESTABLISHING REVENUE REQUIREMENT,
MAKING INTERIM RATES PERMANENT, ESTABLISHING PERMANENT RATES,
RULING ON MOTIONS, IMPOSING DIVIDEND RESTRICTION, OPENING DOCKETS
OF INVESTIGATION, AND APPROVING TARIFF SHEETS**

BY THE COMMISSION:

Summary

We accept a stipulation of all parties resolving certain revenue
requirement, rate base, and other issues. We resolve all remaining disputed issues.
We determine a revenue requirement. We make the interim rates permanent and

1 Cost of Equity

2 As a preliminary matter we address the statement by ML&P that the ROE
3 discussion in Order U-08-157(10)/U-08-158(10) is a “roadmap provided by the
4 Commission.”³⁰⁶ The ROE analysis in Order U-08-157(10)/U-08-158(10) represents the
5 weighing of the testimony presented in that docket by a majority of the assigned hearing
6 panel.³⁰⁷ The analysis may be instructive for future commission panels. However,
7 presented with a different record, different commission panels will weigh the testimony
8 as appropriate to determine a fair ROE.

9 Also as a preliminary matter we address the claim by FEA that a portion of
10 the equity in ML&P should be treated as a risk free investment. FEA bases its
11 argument on the use of a hypothetical capital structure in Order U-87-084(8). The
12 argument that rates calculated under a hypothetical capital structure result in risk free
13 equity for the utility is unsupported by citation to authority from this commission or from
14 any other jurisdiction. Additionally, Order U-87-084(8) was issued on September 7,
15 1988.³⁰⁸ No commission decision issued in the intervening 26 years has evidenced the
16 intent to create a class of risk free equity in Order U-87-084(8). We decline to
17 incorporate a class of risk free equity for ML&P in our calculation of its weighted
18 average cost of capital.

19 As the starting point for our determination of a fair and reasonable ROE
20 for ML&P we use its last adjudicated result, 10.93%.³⁰⁹ ML&P presented testimony
21 proposing an ROE of 11.8%. However, this testimony used proxy groups without
22

23 ³⁰⁶T-15 (Zepp Direct) at 15.

24 ³⁰⁷Order U-08-157(10)/U-08-158(10) at 29-44.

25 ³⁰⁸Order U-87-084(8).

26 ³⁰⁹Order U-10-031(15) at 12-13, 19.

satisfactorily explaining how the characteristics of the proxy groups matched ML&P's actual circumstances. Further, the testimony did not identify changes specific to ML&P that require a change to the adjudicated ROE.

Equally important in our decision on a fair ROE is our weighing of the testimony presented at hearing. The testimony from ML&P's ROE expert at hearing³¹⁰ left us with little confidence in the ROE advocated by ML&P. However, in reviewing the testimony presented by all of the parties we find that the ROEs proposed by the AG and PHS are unreasonably low.

When we apply our own reasoned judgment to the record presented in this docket we find that a fair ROE for ML&P remains 10.93%.

Total Weighted Cost of Capital

Based on the above decisions we calculate ML&P's total weighted cost of capital as follows:

Municipal Light & Power Cost of Capital Test Year Ended December 31, 2012			
Capital Component	EMP Actual Capital Structure	Cost	Weighted Cost
Debt	55.5%	4.55%	2.53%
Equity	44.5%	10.93%	4.86%
Total Weighted Cost of Capital			7.39%

³¹⁰Tr. 1089-1471 (Bourassa).

