

STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Robert M. Pickett, Chairman  
Kate Giard  
Paul F. Lisankie  
T. W. Patch  
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) U-10-031  
TA306-121, TA309-121 and TA310-121, )  
Filed by the MUNICIPALITY OF )  
ANCHORAGE d/b/a MUNICIPAL LIGHT )  
and POWER )  
\_\_\_\_\_ )

REGULATORY COMMISSION OF ALASKA  
Anchorage, Alaska

VOLUME VII

PUBLIC HEARING  
March 25, 2011  
9:00 o'clock a.m.  
Anchorage, Alaska

BEFORE: ROBERT ROYCE, ADMINISTRATIVE LAW JUDGE, RCA

AND: ROBERT M. PICKETT, CHAIRMAN, RCA  
KATE GIARD, COMMISSIONER, RCA  
PAUL F. LISANKIE, COMMISSIONER, RCA  
T. W. PATCH, COMMISSIONER, RCA  
JANIS W. WILSON, COMMISSIONER, RCA

APPEARANCES:

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Date: 2-7-17 Exh # H97  
Regulatory Commission of Alaska  
U-16-094 By: LK U-17-008  
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# TABLE OF CONTENTS

WITNESSES:	VOL.	DIRECT	CROSS	REDIRECT	RECROSS
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FOR FEA:

Larry Blank	VII		703/	849	833/847
Commission Inquiry		740	737/717		

EXHIBITS:

MARKED/ADMITTED

FEA-LB-9A	- Blank's revised exhibit	850/851
H-16	AS 42.05.520, 521, 531, 551	707/709
H-17	U-04-41 Order No. 1	707/710
H-18	ML&P's Reponse to FEA First Discovery Request to ML&P Reply Testimony	728/728
H-19	Diagram by Dr. Blank	784/784
H-20	Notice of Utility Tariff Filings	790/791
H-21	FEA First Supplement to Responses to ML&P Third Discovery Requests	852/855
H-22	FEA Second Supplement to Responses to ML&P Third Discovery Requests	852/855
H-23	Moody's Investors Services 3/11/09	867/868
H-24	Moody's Investors Services 8/10/10	867/868

1 A Yes, sir.

2 Q And I'm sure you recognize this, this is Mr. Saleba's  
3 demonstrative that he drew on the board the other day and  
4 as you can see along the left hand side it has  
5 functionalization, classification and allocation?

6 A Yes.

7 Q And is it correct that, that's the general structure for a  
8 cost of service analysis?

9 A Yes, those are the three primary steps in a cost of  
10 service study.

11 Q And as steps those are -- those are things that go in  
12 sequence?

13 A Not necessarily, depends on the analyst. There's -- many  
14 analysts will combine some of these steps into a single  
15 func- -- into a single step. I know that Entergy (ph) in  
16 Arkansas having to -- the pleasure to review their cost of  
17 service study, it's all mashed into one single  
18 spreadsheet. I give Mr. Saleba credit in that regard.  
19 He's -- he's building (ph) it up making it somewhat easier  
20 to follow, although it's a very complicated subject, so  
21 no, it is possible to combine some of these steps and some  
22 analysts do.

23 Q But if you were -- I understand you're a college  
24 professor, is that correct? If you were.....

25 A Yes, sir.

1 Q .....doing cost allocation 101 those would be discrete  
2 steps?

3 A That's exactly how we -- how we teach it. When I -- when  
4 I teach students or other professionals in the industry --  
5 well, of course, we break it down into those three steps.

6 Q Okay. And my understanding is that under the average and  
7 -- what you call in the average and peak or the CP that  
8 Mr. Saleba favors, in the second step he identified the  
9 portion of the plant attributable to energy and the  
10 portion attributed to demand and --.....

11 A Yes.

12 Q .....and he did that based on load factor?

13 A Yes.

14 Q And that resulted in the 72 or 72/28 split and -- and my  
15 understanding is that you don't have a problem with the  
16 way he did that in -- for the average and peak.....

17 A Yes, calling what it is, it is the average and peak  
18 methodology which combines -- when you apply the average  
19 and peak as it's described in the NARUC Manual what you  
20 are doing is you are classifying and allocating within  
21 that one methodology. The same is true for the average  
22 and excess methodology, you are capturing both  
23 classification and allocation within a single formula, but  
24 Mr. Saleba has separated it, but effectively it's the same  
25 as the average and peak so yes, he first classifies an

1 energy or base load component of the capacity cost, a  
2 demand component to the capacity cost, he then allocated  
3 the energy classified costs based on energy allocator and  
4 then the demand cost based on, I think, 12 CP.

5 Q Yeah.

6 A Yes. And that is consistent. That is consistent. I  
7 mean, we might debate whether we should use 12 CP or some  
8 other peak demand measure, but his application of that  
9 method is consistent with the NARUC Manual and his  
10 application of the average and excess is flawed.

11 Q Doesn't your application of the average and excess require  
12 a classification of 100 percent of the plant to demand?

13 A No, it's subsumed within the methodology. The methodology  
14 uses the load factor. It allocates the energy related  
15 component based on an energy allocator and the demand  
16 component is allocated based on an excess allocator. All  
17 of that is subsumed within the average and excess  
18 methodology so it is both classifying and allocating at  
19 the same time. What Mr. Saleba has done is he's  
20 classified -- he's done this split between energy related  
21 and demand related. He's done it twice and so he's  
22 basically double counting or double calculating the energy  
23 related component of the capacity costs or the -- or the  
24 base load component of generation capacity.

25 Q Okay.

1 MR. JONES: So I'm going to introduce an exhibit. I guess  
2 that would be.....

3 ALJ ROYCE: We're on H-18.

4 MR. JONES: H-18.

5 (Exhibit H-18 marked for identification)

6 ALJ ROYCE: The witness has been handed a document marked  
7 for identification as exhibit H-18. Mr. Jones, please proceed.

8 Q (By Mr. Jones) Dr. Blank, you may recall in Mr. Saleba's  
9 testimony there was some discussion of the NARUC Manual  
10 and Mr. Saleba referenced that he thought that was  
11 somewhere in our communications as a discovery request.  
12 And in front of you is ML&P's response to FEA's First  
13 Discovery Request to ML&P's Reply Testimony, do you  
14 recognize this?

15 A Yes.

16 MR. JONES: I would move to admit H-18.

17 ALJ ROYCE: Any objection.....

18 CAPT. JUNGELS: No objection.

19 MR. CASON: No, obj-.....

20 CAPT. JUNGELS: No, Your honor.

21 ALJ ROYCE: Exhibit H-18 is admitted into evidence.

22 (Exhibit H-18 admitted)

23 Q (By Mr. Jones) And on page 5 of -- or page 4 of this  
24 document is a quote from the NARUC Manual which says, in  
25 some cases, an energy allocator, (annual kilowatt

1 consumption or average demand) is used to allocate part of  
2 the production costs among the classes, but part or all of  
3 these costs remain classified as demand related. Is  
4 Doctor -- is Mr. Saleba's approach consistent with this in  
5 your view?

6 A No. No, his application of the average and excess  
7 methodology has an energy allocator component squared, so  
8 it's -- I mean, my -- my average and excess approach which  
9 is the only way I've seen it done -- I mean, we may  
10 quibble about which demand measures to feed into that  
11 approach, but the approach that I've used is the only one  
12 that I've ever seen until I saw Mr. Saleba's work. And --  
13 but I can say that my application of the average and  
14 excess methodology is also consistent with this statement.  
15 72.5 percent of the total capacity cost under my  
16 methodology are allocated using an energy allocator which  
17 usually is very beneficial to the smaller rate classes and  
18 then only 27.5 percent of the capacity costs are allocated  
19 based on excess demand and so that's what the average and  
20 excess method is designed to do.

21 Q Okay. I'd like to turn now to the cost of power  
22 adjustment issue that you raised. I don't think it's been  
23 addressed yet in this proceeding. And ML&P proposed in  
24 its revenue requirement study -- or I'm not sure if it's  
25 in the study, but ML&P proposed to put a full test year fuel