

CLERK'S OFFICE

APPROVED

Date: 6-25-02

Submitted by: Chair of the Assembly at the Request of
the Mayor
Prepared by: Municipal Light & Power
For reading: June 11, 2002



ANCHORAGE, ALASKA

AO No. 2002- 93

1 | AN ORDINANCE AUTHORIZING MUNICIPAL LIGHT AND POWER TO FILE THE
2 | ELECTRIC REVENUE REQUIREMENT AND COST-OF-SERVICE STUDIES WITH THE
3 | REGULATORY COMMISSION OF ALASKA (RCA) AND TO REQUEST APPROVAL OF A
4 | RATE INCREASE

5 |
6 | WHEREAS, on February 19, 2002, the RCA ordered Municipal Light and Power to file, by June
7 | 30, 2002, updated Electric Revenue Requirement and Cost-of-Service Studies for the test year
8 | ended December 31, 2001; and

9 |
10 | WHEREAS, Municipal Light and Power has prepared those studies, and they indicate the need for
11 | an overall electric rate increase equal to 8.07 percent of Municipal Light and Power's base-rate
12 | energy and demand charges, which will be phased in over 14 months; and

13 |
14 | WHEREAS, the Municipal Light and Power Commission anticipated the need for ML&P to
15 | implement a general rate increase when it adopted and recommended approval by the Assembly of
16 | ML&P's Fiscal Year 2002 Operating and CIP Budgets, as well as its six-year Capital Improvement
17 | Program of \$196,659,000; and

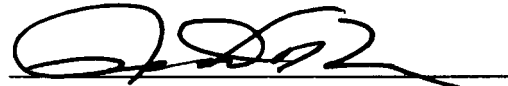
18 |
19 | WHEREAS, the Municipal Light and Power Commission has reviewed ML&P's Electric Revenue
20 | Requirement and Cost-of-Service Studies, and has unanimously passed a Resolution dated May 22,
21 | 2002 recommending approval of ML&P's requested two-phase general rate increase; and

22 |
23 | WHEREAS, the Municipal Assembly approved ML&P's Capital Improvement Program of
24 | \$196,659,000 by approving AR 2001-275 (2002-2007 Municipal Utilities Capital Improvement
25 | Program) on November 21, 2001; now, therefore,

26 |
27 | THE ANCHORAGE ASSEMBLY ORDAINS:

28 |
29 | Section 1: That Municipal Light and Power may file the Electric Revenue Requirement and
30 | Cost-of-Service Studies with the RCA, request RCA approval of an overall electric rate increase of
31 | 8.07 percent, and request RCA approval to phase-in implementation of the rate increase in two
32 | phases: a 4.035 percent increase effective August 15, 2002 and a 4.035 percent increase effective
33 | October 1, 2003.

PASSED AND APPROVED by the Anchorage Assembly this 25th day of June, 2002.


Chair

ATTEST:


Municipal Clerk

MUNICIPALITY OF ANCHORAGE

Summary of Economic Effects -- Utilities

AO Number: 2002- 93 Title: AN ORDINANCE AUTHORIZING MUNICIPAL LIGHT AND POWER TO PROCEED TO FILE REVENUE REQUIREMENT AND COST OF SERVICE STUDIES WITH THE REGULATORY COMMISSION OF ALASKA (RCA) AND TO REQUEST APPROVAL OF A RATE INCREASE

Sponsor: Mayor/General Manager

Preparing Agency: ML&P

Others Impacted: ML&P Customers

CHANGES IN REVENUES AND EXPENSES:		(In Thousands of Dollars)				
	FY02	FY03	FY04	FY05	FY06	
Operating Revenues: *	\$1,051	\$3,502	\$5,603	\$5,603	\$5,603	
TOTAL OPERATING REVENUES	\$ 1,051	\$ 3,502	\$ 5,603	\$ 5,603	\$ 5,603	
Operating Expenses: *	n/a	n/a	1,830	1,905	2,010	
TOTAL OPERATING EXPENSES	\$0	\$0	\$ 1,830	\$ 1,905	\$ 2,010	
Non-Operating Revenues: *	n/a	590	1,280	740	470	
TOTAL NON-OPERATING REVENUES	\$0	\$ 590	\$ 1,280	\$ 740	\$ 470	
Non-Operating Expenses: *	n/a	806	3,179	3,104	2,999	
TOTAL NON-OPERATING EXPENSES *	\$0	\$ 806	\$ 3,179	\$ 3,104	\$ 2,999	
NET INCOME (REGULATED) *	\$ 1,051	\$ 3,286	\$ 1,874	\$ 1,334	\$ 1,064	
POSITIONS: FT/PT and Temp	0	0	0	0	0	

PUBLIC SECTOR ECONOMIC EFFECTS:

This proposed ordinance will have no impact on local government costs.

* Though the subject Assembly Ordinance is not requesting approval to sell \$60,000,000 of revenue bonds at this time, the bulk of the proposed rate increase is designed to accommodate an October 1, 2003 bond sale to partially fund ML&P's six-year CIP. Therefore, while the Operating Revenue section of this form shows the impact of rate changes, the balance of the form (Operating Expenses, Non-operating Revenue, Non-operating Expenses and the Net Income (Regulated) sections) reflects the impact 1) that interest earnings on invested debt service reserves and invested unspent bond proceeds will have on non-operating revenues, and 2) that debt service expense and depreciation expense will have on non-operating expense and operating expense as bond proceeds are spent, utility plant is placed in service, and debt service payments are made. The resulting Net Income (Regulated) will be spent on capital construction.

PRIVATE SECTOR ECONOMIC EFFECTS:

As noted in the Operating Revenue section of this form, the economic impact to ML&P's retail electric customers of raising rates in two equal installments of 4.035% each over a 13-month period (for a total of 8.07%) is to increase revenue to ML&P in the amount of \$1,051,000 in FY2002; \$3,502,000 in FY2003 and \$5,603,000 in FY2004 and beyond. While this action represents an across-the-board increase in rates to all ML&P customer classes, its true economic impact can only be appropriately assessed when compared to the 14.96% increase in the Consumer Price Index (CPI-U) which has occurred in Anchorage since ML&P's last general rate increase in December, 1994. This differential (14.96% vs. 8.079%) establishes that even after the final installment of the required increase is implemented October 31, 2003, the price of a kilowatt hour of electricity for ML&P's customers is a better value today than it was in December, 1994.

As another means of considering the propriety of rates resulting from this action, the attached bar chart "benchmarks" ML&P's Phase I and Phase II rates for its four major customer classes against those of Chugach Electric Association (CEA). As the bar chart indicates, after the Phase I increase of 4.035% occurs, ML&P's rates will be below CEA's rates for all customer classes except Large Commercial Primary. After the Phase II increase of 4.035% occurs October 1, 2003, ML&P's rates for the Residential and Small Commercial customer classes will be significantly below CEA's rates for those classes, and only slightly higher for the Large Commercial Secondary and Large Commercial Primary customer classes. Since derivation of these rate comparisons includes making future projections about the cost of gas for both ML&P and CEA, and since each have gas supply contracts with differing terms and conditions, the difference in rates for these two customer classes is essentially indistinguishable and may result from "modeling noise."

Failure to approve the action envisioned by this ordinance would seriously jeopardize if not preclude ML&P's ability to fund its \$196,659,000 six-year Capital Improvement Program (the Program), which is necessary to replace aging transmission, distribution and generation infrastructure. Funding the Program of necessity will require the use of both debt capital and equity capital, whose ultimate cost can only be minimized by maintaining adequate debt service coverage ratios (DSCR) for both existing debt and new debt when it is issued. Implementation of both phases of the proposed rate increase will improve ML&P's overall DSCR of 1.61 on existing debt to 1.82, which is considered to be a minimum level of DSCR adequacy by the bond market for an A- rated (Standard & Poors) municipally-owned utility approaching the bond markets for new debt. After the \$60,000,000 bond sale this action allows occurs, ML&P's overall DSCR of 1.82 would drop to 1.53, which exceeds the 1.35 DSCR required by existing bond covenants by enough margin to induce the bond market to buy new ML&P bonds at a favorable rate. These favorable rates, coupled with efficiencies to be gained when replacement of existing infrastructure occurs, will assure that the electric service provided by ML&P to its customers continues to be competitively priced and meets the reliability standards expected by both our residential and commercial customers.

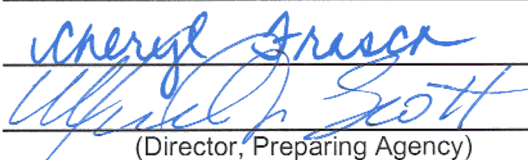
Prepared by: Daniel B. Helmick, Manager, Business Enterprises

Telephone: 263-5205

Validated by OMB:

Date:

Approved by:


(Director, Preparing Agency)

Date:

Concurred by:

(Director, Impacted Agency)

Date:

Approved by:

Date:

**Resultant ML&P Debt Service Coverage Ratios
After Significant Milestones
Supporting Schedule**

	<u>Electric Operations</u>	<u>Gas Operations</u>	<u>Combined ML&P Operations</u> ¹
Debt Service Coverage Ratio – December 31, 2001	1.41	2.27	1.61
Debt Service Coverage Ratio – after Phase I Increase (annualized)	1.51	2.27	1.69
Debt Service Coverage Ratio – after Phase II Increase (annualized)	1.69	2.27	1.82
Debt Service Coverage Ratio – after \$60,000,000 Bond Issue (annualized)	1.35	2.27	1.53

Bond rating agencies will consider the contribution to overall ML&P debt service coverage adequacy made by both ML&P electric operations and gas field operations.



MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

No. AM 511-2002

Meeting Date: June 11, 2002

FROM: Mayor

SUBJECT: An Ordinance Authorizing Municipal Light And Power To File The Electric Revenue Requirement And Cost-of-Service Studies With The Regulatory Commission Of Alaska (RCA) And To Request Approval Of A Rate Increase

On February 19, 2002 the RCA ordered Municipal Light and Power (ML&P) to file, by June 30, 2002, updated Electric Revenue Requirement and Cost-of-Service Studies for the test year ended December 31, 2002. ML&P has prepared those studies, and they indicate the need for a general electric rate increase equal to 8.07 percent of ML&P's energy and demand charges.

Anchorage Municipal Code 26.10.035 provides that "[a]ll requested rate changes to utility tariffs shall be brought to the assembly by ordinance for review and approval for submission to the state public utilities commission." In accordance with AMC 26.10.035, ML&P is submitting the attached ordinance for Assembly approval. The ordinance authorizes ML&P to file the Electric Revenue Requirement and Cost-of-Service Studies and request RCA approval of the required rate increase that is indicated by the studies, through a two-stage phase-in over a 13-month period. Specifically, the ordinance authorizes ML&P to request RCA approval of a 4.035 percent increase effective August 15, 2002, and a 4.035 percent increase effective October 1, 2003.

This request for Assembly approval is supported by the following information:

1. ML&P's last general rate increase occurred over seven years ago, in December 1994 through a 3.59 percent increase to demand and energy charges. Since that time, the Consumer Price Index for All Urban Consumers (CPI-U) in Anchorage has increased by a cumulative total of approximately 14.96 percent. ML&P has been able to weather these cost increases without increasing base rates for more than seven years by controlling costs and increasing efficiencies wherever possible. However, these measures must now be augmented by the requested rate increase to maintain the financial strength of the utility.

2. ML&P's bond covenants require it to set rates so as to achieve a minimum Debt Service Coverage Ratio (DSCR) of 1.35. Presently, ML&P's DSCR from electric operations is only 1.41. The requested rate increase will help restore adequate DSCR margins to ML&P's electric operations. As

proposed, the two-phase rate increase is projected to result in electric DSCRs of 1.51 following the first increase and 1.69 following the second increase.

3. ML&P will need to issue \$50 million to \$60 million in revenue bonds in the next two years to partially fund ML&P's six-year Capital Improvement Program to replace aging electric infrastructure. By providing increased revenues to fund capital projects, the requested rate increase will reduce the amount of bonds that would otherwise have to be issued. More significantly, without the requested rate increase, ML&P's low rates and marginal DSCR would make it more difficult and costly for ML&P to issue revenue bonds as needed.

4. If the requested rate increase is approved, ML&P's rates will still be lower on average than those of Chugach Electric Association, Inc. for most customer classes.

5. The proposed two-stage phase-in of the rate increase will reduce the initial impact on customer rates by implementing only half of the required increase effective August 15, 2002. The other half of the required increase will be implemented over 13 months later effective October 1, 2003.

6. The Municipal Light and Power Commission anticipated the need for ML&P to implement a general rate increase when it adopted and recommended approval by the Assembly of ML&P's Fiscal Year 2002 Operating and CIP Budgets, as well as its six-year Capital Improvement Program of \$196,659,000. The Municipal Light and Power Commission has reviewed ML&P's Electric Revenue Requirement and Cost-of-Service Studies, and has passed a Resolution (copy attached) dated May 22, 2002 recommending approval of ML&P's requested two-phase general rate increase.

THE ADMINISTRATION RESPECTFULLY REQUESTS APPROVAL OF THE ATTACHED ORDINANCE TO FILE ELECTRIC REVENUE REQUIREMENT AND COST-OF-SERVICE STUDIES WITH THE RCA AND TO REQUEST RCA APPROVAL OF AN 8.07 PERCENT, TWO-PHASE GENERAL RATE INCREASE OF 4.035 PERCENT, EFFECTIVE ON AUGUST 15, 2002 AND OCTOBER 1, 2003 RESPECTIVELY.

Concur:



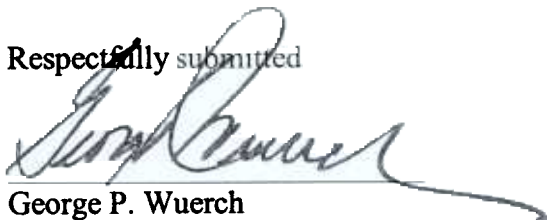
Harry J. Kieling
Municipal Manager

Recommended by:



Michael J. Scott
Municipal Light & Power General Manager

Respectfully submitted



George P. Wuerch
Mayor



MUNICIPAL
LIGHT & POWER

1 A RESOLUTION OF THE MUNICIPAL LIGHT & POWER COMMISSION
2 RECOMMENDING APPROVAL OF A REQUEST FOR A GENERAL RATE INCREASE TO
3 BE APPLIED ON AN ACROSS-THE-BOARD BASIS IN TWO EQUAL INSTALLMENTS
4 EFFECTIVE AUGUST 15, 2002 AND OCTOBER 1, 2003 RESPECTIVELY.
5

6
7 Whereas, on February 19, 2002 the Regulatory Commission of Alaska ordered ML&P to file a
8 Revenue Requirement and Cost-of-Service Study based on a 2001 Test Year by June 30, 2002
9 and set the matter for hearing October 15, 16 and 17, 2002; and
10

11 Whereas, the ML&P Commission reviewed and accepted the 2002-2007 Capital Improvement
12 Program of \$196,659,000 in its August 22, 2001 Resolution adopting and recommending
13 ML&P's budgets; and
14

15 Whereas, the need to sell \$50-60 million of revenue bonds exists to partially fund ML&P's six-
16 year Capital Improvement Program to replace aging infrastructure; and
17



18 Whereas, ML&P's last general rate increase occurred December, 1994 in an amount equal to
19 3.59%; and
20

21 Whereas, the ML&P Commission anticipated the need for a staged general rate increase in its
22 August 22, 2001 Resolution adopting and recommending ML&P's budgets; and
23

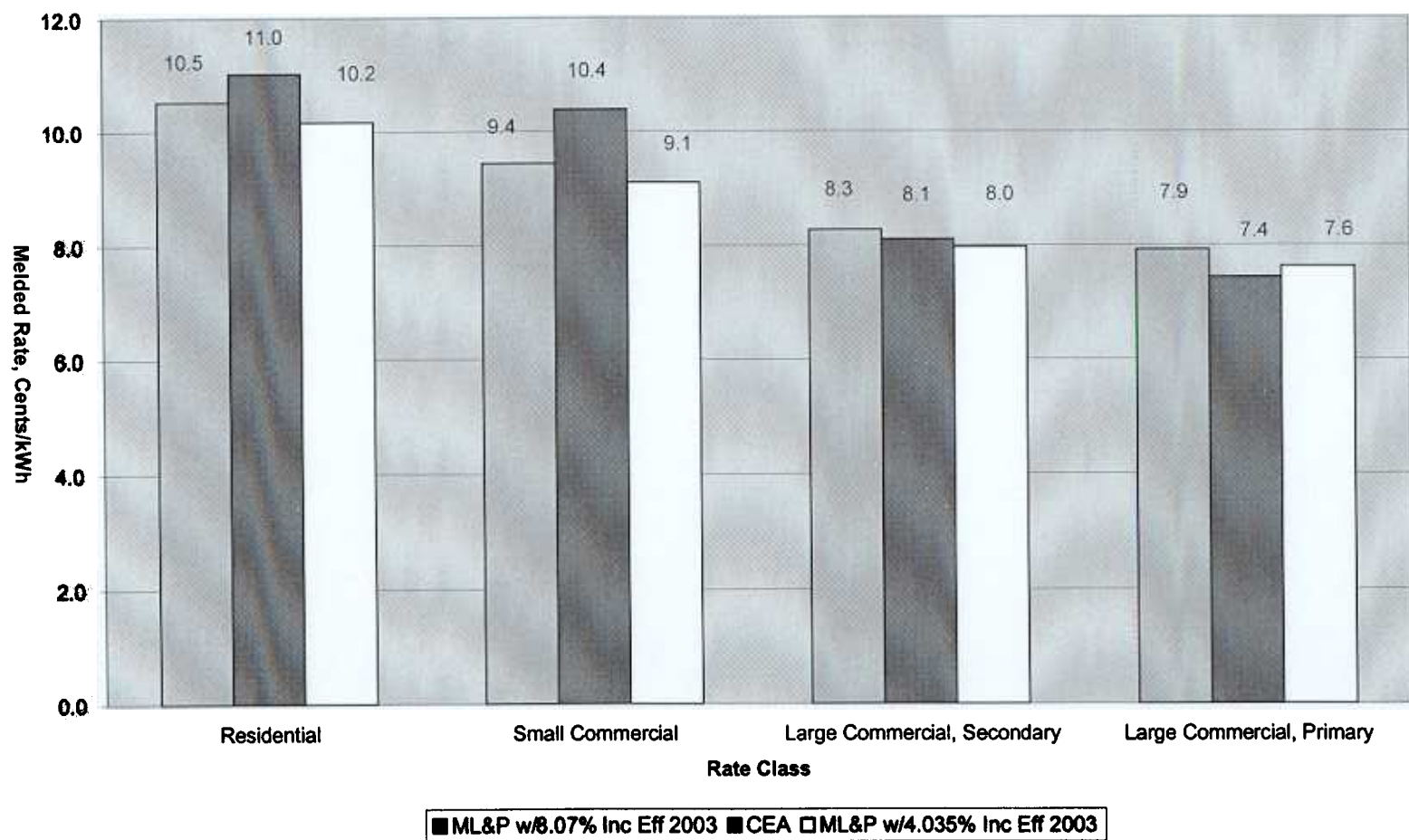
24 Whereas, the results of the 2001 Test Year Revenue Requirement and Cost-of-Service Studies
25 have been reviewed and accepted by the ML&P Commission,
26

27 NOW, THEREFORE, the Municipal Light & Power Commission recommends approval of a
28 request of the Regulatory Commission of Alaska for a general rate increase of 8.07% to be
29 applied on an across-the-board basis in two equal installments of 4.035% effective August 15,
30 2002 and October 1, 2003 respectively, and that said request be filed June 30, 2002 as ordered by
31 the Regulatory Commission of Alaska.
32

33 PASSED AND APPROVED by the Municipal Light & Power Commission this 22nd day of
34 May, 2002.
35
36
37

38  
39 _____
40 Russell Nogg, Chairman

Rates by Class in 2003—ML&P vs. CEA



Municipality of Anchorage
MUNICIPAL CLERK'S OFFICE
Agenda Document Control Sheet

70 2002-93

(SEE REVERSE SIDE FOR FURTHER INFORMATION)

1	SUBJECT OF AGENDA DOCUMENT	DATE PREPARED	
	An ordinance and memorandum authorizing ML&P to file Electric Revenue Requirement and Cost-of-Service study with Regulatory Commission of Alaska	May 23, 2002	
		Indicate Documents Attached <input checked="" type="checkbox"/> SEE <input checked="" type="checkbox"/> AO <input type="checkbox"/> AR <input checked="" type="checkbox"/> AM <input type="checkbox"/> IM	
2	DEPARTMENT NAME	DIRECTOR'S NAME	
	ML&P	Michael J. Scott	
3	THE PERSON THE DOCUMENT WAS ACTUALLY PREPARED BY	HIS/HER PHONE NUMBER	
	Dan Helmick/Deirdre Brust	x5205/5269	
4	COORDINATED WITH AND REVIEWED BY	INITIALS	DATE
	Mayor	W	6/4/02
	Heritage Land Bank		
	Merrill Field Airport		
X	Municipal Light & Power	MTS	5-30-02
	Port of Anchorage		
	Solid Waste Services		
	Water & Wastewater Utility		
X	Municipal Manager	M	6/4
	Cultural & Recreational Services		
	Employee Relations		
	Finance, Chief Fiscal Officer		
	Fire		
	Health & Human Services		
X	Office of Management and Budget	CF	5/30/02
	Management Information Services		
	Police		
	Planning, Development & Public Works		
	Development Services		
	Facility Management		
	Planning		
	Project Management & Engineering		
	Street Maintenance		
	Traffic		
	Public Transportation Department		
	Purchasing		
X	Municipal Attorney	WJS	5/30/02
X	Municipal Clerk		
	Other		
5	Special Instructions/Comments		
	for introduction June 11, 2002		
6	ASSEMBLY HEARING DATE REQUESTED	7	PUBLIC HEARING DATE REQUESTED
	6/11/02		June 25, 2002

M.D.A.
 2002 JUN -4 AM 8:40
 CLERKS OFFICE