

**Power Cost Equalization for AEA Agency Overview Presentation
to the House Energy Committee on February 21, 2017**



Created in 1984 in response to State investment in Four Dam Pool hydro projects, the purpose of the Power Cost Equalization program is to reduce (equalize) electrical rates in high-cost parts of the state.

<http://www.akenergyauthority.org/Content/Programs/PCE/Documents/PCEProgramGuideJuly292014EDITS.pdf>.

Important PCE vocabulary:

- **The PCE Floor or Base Rate:** The weighted average cost per kilowatt hour in Anchorage, Fairbanks and Juneau (currently 16.67 cents/kWh)
- **PCE Level:** The state reimbursement per eligible kWh calculated for each community based on eligible fuel and non-fuel costs (more on next slide)
- **Effective Rate:** The cost per kWh that the customers will pay for a PCE-eligible kWh (rate charged by the utility minus PCE level)
- **PCE Program:** Provides reimbursements to utilities for kWh sold to eligible customers
- **PCE Endowment:** Fund invested by the Alaska Department of Revenue that pays for the PCE Program and its administration (AEA, RCA, DOR)

What's Included in the PCE Level:

- Fuel cost for current generation is an eligible expense
- Fuel cost associated with past generation (old fuel debt) is not an eligible expense
- Non-fuel costs include: salaries, insurance, taxes, parts and supplies, interest and depreciation expense, and other reasonable costs
- Costs associated with renewable energy generation are an eligible non-fuel cost

Formula for Determining PCE Level:

95% of a utility's costs between \leftrightarrow 16.67¢/ kWh and \$1.00/kWh are used to calculate the PCE level. If costs are below \leftrightarrow 16.67¢/ kWh, they are not eligible for PCE. Base may vary on annual basis, per AS 42.45.110(c)(2).

PCE Eligibility:

- Residential and community facilities (water, sewer, public lighting, clinics, etc.) ARE eligible
- State and federal facilities and commercial customers are NOT eligible
- Any community with rates lower than the urban average (the PCE floor) are NOT eligible
- Railbelt electric utilities, Juneau and the Four Dam Pool communities are NOT eligible

Impact of PCE on Electric Rates:

- Residential customers: credit on first 500 kWh consumed and billed monthly
- Community facility customers: credit on 70 kWh x the community population (aggregated, not per customer)
- Customer's bill = total kWh cost - PCE credit
- Utilities are required to notify the customer of the PCE credit and total cost of service with every bill

PCE and Renewable Energy Projects:

- Renewable energy projects may decrease fuel costs and increase non-fuel costs (like operations and maintenance). These costs are part of the PCE level calculations.
- We should expect that the change in costs will change the PCE Level.
- Renewable energy projects benefit non-PCE eligible kWh the greatest.