



May 29, 2009

Members of the House Energy Committee
House of Representatives
State of Alaska

Honorable Co-Chairs and Committee Members:

Welcome to Bethel. Thank you for making the time to visit our rural communities to see firsthand what we are doing to cope with our energy issues.

I am Meera Kohler, President and CEO of Alaska Village Electric Cooperative. We were established 40 years ago to bring "the light" to Alaska's villages – communities where Alaskans relied upon kerosene lamps and seal oil for their modest energy needs.

I'm sure many of you have read Willie Hensley's recent book – Fifty Years from Tomorrow. Willie was AVEC's first president. He had the vision that, by perseverance and dedication, we could make the impossible happen. That vision led the way to ANCSA – and to AVEC.

But AVEC was not a slam dunk. We teetered on the brink of bankruptcy for many years. It was not until the early 80s that we were able to finally collect enough revenue to pay for our very modest operations and PCE made that possible.

It surprises many to know that AVEC's generation and distribution assets were not built with state or federal largesse. We now have more than \$114 million invested in our utility systems, not counting any grant-funded plant. All we had at the beginning were REA loans that had to be paid back. It was not until this decade, when we became a Denali Commission partner, that we were able to start upgrading our power plants and tank farms to acceptable utility standards. Our villages are still the only communities that actually bring a substantial amount of cash to match our various federal construction grants. We have almost \$100 million of federally funded plant improvements now and more than \$12 million in AVEC equity match.

This morning, you visited Kasigluk and toured the wind farm there. Kasigluk is one of our villages. Power from the diesel and wind generators there serve both Kasigluk and the nearby village of Nunapitchuk. The power plant, wind turbines tank farm and intertie cost some \$15 million. 10% came from AVEC's equity – the rest came from the Denali Commission and the RUS. Not a penny of state funds were used. About 20% of the two communities' power comes from wind and the fuel cost per kWh is 12 cents lower than neighboring communities.

But wind is not the answer to reduce the cost of power. Our average cost of electricity is more than 62 cents a kWh. Fuel alone is 37 cents this year and non fuel costs are 25 cents. PCE helps make power affordable for homes and public facilities, but it does nothing for commerce and schools. We must find a way to do away with PCE so that electricity can be affordable for everyone!

The answer is for all Alaskans to be treated the same, at least as far as electricity is concerned. To that end, we propose the All Alaska Generation and Transmission plan. The concept is very simple. The AAG&T in effect operates all the generation and transmission assets in the state of Alaska. All the existing utilities become distributing utilities only. Power is sold back from AAG&T at a "postage stamp" rate and the local utilities add their local administration, billing and operating costs to achieve local retail rates, likely ranging from 13 cents to 25 cents a kWh.

Currently, utilities sell some 6.5 billion kWh in the state. 85% of those sales are in the Railbelt and in other low-cost areas like Barrow, Juneau and Sitka, where retail rates average less than 13 cents a kWh. Of the remaining 15%, about 8.5% of sales are in non-PCE communities like the Four Dam Pool where the cost of power is now around 30 cents and the last 6.5% covers the PCE communities where the average retail rate is around 55 cents.

By pooling all power and selling it to utilities at a uniform rate, we achieve many purposes:

- Communities outside the Railbelt are no longer second-class citizens when it comes to reliable electricity. Even diesel power plants are complicated to operate and many communities have tenuous generation systems because of the lack of qualified local personnel.
- Economic development becomes feasible. Unaffordable electricity is a prime reason why local commerce cannot develop and flourish.
- The need for PCE goes away, saving the state some \$32 million a year.
- The cost of operating rural schools declines dramatically as electricity cost drop, likely saving another \$20 million annually.
- Similarly, costs to operate other state facilities decline, estimated to save another \$20 million each year.
- The perennial challenges in keeping the lights on across the state diminish as a technically competent operations team will work across the state to address local generation challenges.
- And of paramount importance, vying for scarce capital grants disappears. The entire state will unite behind generation projects that deliver the maximum benefits to the largest area because reducing the cost of power in Anchorage, for example, will translate to lower generation costs for the entire state. Regional projects that deliver the maximum benefits will not have to compete for funds because they will naturally fall into a state-wide priority list.

Honorable legislators, it is time to end the politics of separation. We are all Alaskans equally. We all deserve affordable and reliable electricity. Electricity is the basic underpinning of modern society. Without it, we would not have schools, potable water, sewer systems, healthcare or airports. For too long, electricity for rural Alaskans has been an almost unaffordable luxury. You can change that and our children and grandchildren will thank you, as I do.

Thank you for the opportunity to comment.

Yours very sincerely,



Meera Kohler
President & CEO