

# LEGISLATIVE RESEARCH REPORT

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## POWER COST EQUALIZATION, 1981-1999

PREPARED BY KEVIN O'SULLIVAN, LEGISLATIVE ANALYST

You requested an update of Legislative Research Report 95.159, a legislative history of the Power Cost Equalization Program (PCE). As enacted in 1981, the program was designed to reduce the electric rates paid by rural consumers to levels comparable to those paid by consumers in Anchorage, Fairbanks, and Juneau. The program also makes grants to eligible utilities to improve the performance of the utility. Operating under four different names over the past twenty years, the program has evolved in various ways. Because 95.159 provided a detailed history for the years 1981-1995, we focus in this report on developments from 1995 to the present.<sup>1</sup>

### Significant Changes Since 1995

An amendment to AS.42.45.110 effective July, 1999, increased the entry rate from 9.5 cents/kwh to 12 cents/kwh and decreased the consumption cap for residential customers from 700 kwh/month to 500 kwh/month. As a result, the subsidies paid to rural utilities will decline. A second significant change removed commercial customers and public schools from the energy subsidy program.<sup>2</sup> Especially affected by this change are rural school districts who must now absorb the cost of lost PCE credits out of their operating budgets, while still meeting the requirements of AS 14.17.520 to spend at least 70 percent of their operating budget on instructional functions.<sup>3</sup>

During the past five years, the Legislature appropriated approximately \$17 million annually to the Power Cost Equalization and Rural Electric Capitalization (PCE-REC).<sup>4</sup> This is in keeping with the Legislature's intent to flat-fund the power cost equalization program at a minimum of \$17 million

<sup>1</sup> For a detailed history of these four programs between 1981-1995, see Legislative Research Report 95.159.

<sup>2</sup> Sec. 5-8 ch 93 SLA 1999.

<sup>3</sup> For more information, see Legislative Research Report 99.086, "Use of the PCE Program by School Districts."

<sup>4</sup> *Statistical Report of the Power Cost Equalization Program*, Division of Energy for fiscal years 1996-1999.

annually through the year 2013.<sup>5</sup> Bert Tarrant, PCE program coordinator for the Division of Energy, reports that PCE program costs without commercial customers and schools are approximately \$15.7 million. If appropriations are insufficient for payment in full to program participants, statutes direct the Department of Community and Economic Development (DCED) to divide these appropriations on a pro rata basis among the utilities.<sup>6</sup>

The following tables summarizes the main differences in the programs over the years.

<b>Changes in PCE Program Requirements</b>					
	FY 81 Power Production Cost Assistance Program	FY 82-FY85 Power Cost Assistance Program	FY 85-FY94 Power Cost Equalization Program	FY 94-FY 98 Power Cost Equalization and Rural Electric Capitalization Fund	FY 99-Present Power Cost Equalization and Rural Electric Capitalization Fund
<b>Entry Rate</b> <sup>1</sup>	7.65 cents/kwh	12 cents/kwh	8.5 cents/kwh	9.5 cents/kwh	12 cents/kwh
<b>Ceiling Rate</b> <sup>2</sup>	40.0 cents/kwh	45.0 cents/kwh	52.5 cents/kwh	52.5 cents/kwh	52.5 cents/kwh
<b>Percentage of Eligible Costs Reimbursed</b>	85 percent	95 percent	95 percent	95 percent	95 percent
<b>Eligible Costs in Excess of the Ceiling Rate Paid</b>	Yes	No	No	No	No
<b>Consumption Cap for Residential and Commercial Customers</b> <sup>3</sup>	None	600 kwh/month	750 kwh/month	700 kwh/month	500 kwh/month
<b>Consumption Cap for Community Facilities</b>	None	55 kwh/month per resident	70 kwh/month per resident	70 kwh/month per resident	70 kwh/month per resident
<b>NOTES:</b>					
1. Entry Rate: A rural utility is reimbursed a percentage of its costs when those costs exceed the minimum amount per kilowatt hour.					
2. Ceiling Rate: A rural utility is reimbursed a percentage of its costs when those costs are below this maximum but above the entry rate.					
3. Customer eligibility is defined in statute and based on actual power use. State and federal offices and facilities are excluded from PCE. Recent changes to AS 42.45.110 made commercial customers and public schools ineligible for PCE credits. Residential customers are now eligible for PCE credit up to 500 kwh/month, while community facilities, as a group, continue to receive PCE credit for up to 70 kwh/month multiplied by the number of residents in the community.					
<b>SOURCES:</b> Department of Community and Economic Development, Division of Energy (Bert Tarrant), personal communications, December 1999; Sec. 5-8 ch 93 SLA 1999; Legislative Research Report 95.159.					

I hope you find this information useful. Please do not hesitate to contact us if you have questions or need additional information.

<sup>5</sup> Chapter 18, SLA 1993.

<sup>6</sup> Chapter 58, SLA 1999 transferred responsibility for administering the PCE-REC program to the Department of Community and Economic Development, Division of Energy, following the dissolution of the Department of Community and Regional Affairs. PCE pro rata reduction is required by AS 42.45.110 (I).