Brief Legislative History of the PCE Program – updated 3/24/2019

The purpose of the PCE Program is to reduce the electric rates paid by rural consumers to levels comparable to those paid by consumers in Anchorage, Fairbanks, and Juneau.

During the past almost forty years, four different programs have subsidized rural electric rates:

- Power Production Cost Assistance Program (PPCA) Fiscal Year 1981
- Power Cost Assistance Program (PCA) Fiscal Year 1982 into Fiscal Year 1985
- Power Cost Equalization Program (PCE) Fiscal Year 1985 into Fiscal Year 1994
- Power Cost Equalization Fund and Rural Electric Capitalization Fund (PCE-REC) Fiscal Year 1994 to Fiscal Year 1999
- Power Cost Equalization Fund (PCE) Fiscal Year 1999 to Present

The five programs share some common characteristics. Each program reimbursed rural utilities a percentage of their eligible costs when those costs exceed "entry" rate (now known as the "floor"). For example, the first program, PPCA, reimbursed 85 percent of a utility's costs in excess of 7.65 cents/kWh to generate and transmit electricity. Each program also set a maximum "ceiling" rate. In the case of the PPCA program, the ceiling rate was 40 cents/kWh. Therefore, the PPCA program reimbursed a utility for 85 percent of its eligible costs over 7.65 cents/kWh but below 40 cents/kWh.

When costs exceeded the ceiling rate of 40 cents/kWh, the initial PPCA program paid 100 percent of a utility's excess costs. Subsequent programs differ from the PPCA program in that they did not reimburse *any* costs beyond their ceiling rates. The first PPCA program also defined "eligible costs" differently from the three subsequent programs. Basically, PPCA reimbursed a utility for production and transmission costs but not for distribution and administration costs. The subsequent programs permitted reimbursement for all of these costs.

The biggest difference between the initial and successor programs was the imposition of caps on the costs eligible for reimbursement on a per customer basis. The initial PPCA program reimbursed a utility for *all* of its eligible costs regardless of who consumed the electricity. All three successor programs limited reimbursement to apply to only a certain amount of kilowatt hours sold to each residential or commercial customer but made special provisions for community facilities (see paragraph below). For example, the PCA program reimbursed eligible costs for the first 600 kWh/month consumed by each residential or commercial customer. If a customer exceeded the cap of 600 kWh/month, then he or she received no subsidy for amounts of electricity consumed in excess of the 600 kWh/month.

The three successor programs treated community facilities in a manner distinct from the other types of customers. Sales of electricity to community facilities qualified for a subsidy on the basis of a set number of kilowatt hours per month per community resident. For example, the PCA program reimbursed eligible costs for providing community facilities with electricity on the basis of 55 kWh/month, per resident. If a community had 100 residents, then the first 5,500 kWh of electricity sold to the community facilities would qualify for the subsidy; conversely, consumption above 5,500 kWh/month would receive no subsidy. The programs defined community facilities as water and sewer facilities, public outdoor lighting, charitable educational facilities, or community buildings whose operations were not paid for by the state, federal government or private commercial interest.

The initial formula of the newest program, the Power Cost Equalization and Rural Electric Capitalization Fund adopted in 1994, varied from the formula of its immediate predecessor, the Power Cost Equalization Program, in two aspects. The entry, or base rate, rose by one penny from 8.5 cents/kWh to 9.5 cents/kWh. The cap for reimbursing eligible costs for residential and commercial consumptions also fell from 750 kWh/month to 700 kWh/month per customer.

In 1993, SB 106 established the "Power Cost Equalization Fund", formerly known as the "Power Cost Equalization and Rural Electric Capitalization Fund", as a separate fund with an initial appropriation of $66.9 million with 3% of the funds available for rural electric project grants. The following fund sources were established for PCE:

1. $66.9 million appropriation to the newly created "PCE fund".
2. 40% of future Four Dam Pool debt service – estimated to provide approximately $4.0 million per year for PCE.
3. Interest earned on the unexpended balance in the PCE Fund.

It also enacted limits on costs eligible for PCE during Fiscal Year 1994. During the state fiscal year that began July 1, 1993, the power costs for which power cost equalization were paid to an electric utility were limited to minimum power costs of more than 9.5 cents per kilowatt-hour and less than 52.5 cents per kilowatt-hour. During each following state fiscal year, the department must adjust the power costs for which power cost equalization may be paid to an electric utility based on the weighted average retail residential rate in Anchorage, Fairbanks, and Juneau.

In 1999, SB 157 enacted provisions that excluded previously eligible commercial customers from participating in the program, and reduced the monthly cap of 700 kWh/month for residential customers to 500 kWh/month. It also raised the "base" from the prior 9.5 cents/kWh to 12 cents/kWh, effective 7/1/99. During each following state fiscal year, the power costs for which power cost equalization may be paid to an electric utility will be based on the weighted average retail residential rate in Anchorage, Fairbanks, and Juneau; however, the power costs cannot be set lower than 12 cents per kWh. The floor in 2019 is 19.02 cents per kWh.

This legislation also amended the PCE funding sources as follows:

1. The percentage of Four Dam Pool debt service allocated for PCE was increased from 40% to 60%. This 20% increment was previously allocated to the Power Project Fund loan program.
2. The NPR-A special revenue fund was added as a potential source of PCE funding.

In 2008, when the price of crude oil hit $147 a barrel, legislature (in special session) raised the ceiling on allowable costs to $1.00 a kWh. This provision was set to expire on June 30, 2009 but action was taken that year to set the ceiling at that level on a permanent basis going forward.

Power Cost Equalization Endowment Fund

In 2000, HB446 established the Power Cost Equalization Endowment Fund as a separate fund of the Alaska Energy Authority. The fund consist of; (1) legislative appropriations to the fund that are not designated for annual expenditure for the purpose of power cost equalization; (2) accumulated earnings of the fund; (3) gifts, bequests, contributions of money and other assets, and federal money given to the fund that are not designated for annual expenditure for power cost equalization; and (4) proceeds from the sale of the Four Dam Pool power projects to the power purchasing utilities under a memorandum of understanding dated April 11, 2000, between the Alaska Energy Authority and the purchasing utilities.

An initial appropriation of $100 million was made into the PCE Endowment Fund from the Constitutional Budget Reserve. In addition, sale of the Four Dam Pool projects was finalized in January 2002, which resulted in a deposit of approximately $84 million to the Fund.

The Endowment Fund is invested and managed by the Alaska Department of Revenue and is invested to earn 7% over time. 7% of the PCE Endowment Fund’s 3 year monthly average market values may be appropriated to the PCE Rural Electric Capitalization Fund for annual PCE program costs. Most of the funding needed to support the PCE program in future years is anticipated to come from earnings of the Endowment Fund. In 2015, the Legislature reduced the investment goal to 5%.

The PCE Endowment Fund was further capitalized with a General Fund appropriation of $182.7 million in October 2006, and $400 million in July 2011. The total invested assets of the fund as of September 30, 2011 were $681,616,886, with the fund posting a year-to-date loss in 2011 of just over $74,000,000. The balance as of 2/28/2019 is $1.04 billion.

Three years ago, legislation was passed that provided that in years in which Fund earnings exceeded the amount needed for PCE credits, up to 70% of the excess earnings could be appropriated to pay for Community Assistance (formerly Revenue Sharing – maximum of $30 million) and up to $25 million for Renewable Energy Grants. During FY2018, the Governor’s capital budget included $30 million for Community Assistance and $15 million for Renewable Energy Grants and administration of those grants.

In FY18, PCE credits totaled $26 million and $32.3 million was appropriated for the FY19 budget that is currently underway. All funding for the PCE credits has come from the Endowment Fund for the last five years.