

# LEGISLATIVE RESEARCH SERVICES

32<sup>nd</sup> Alaska Legislature  
LRS Report 22.070  
January 24, 2022



(907) 465-3991  
[research@akleg.gov](mailto:research@akleg.gov)

## Legislative History of Power Cost Equalization in Alaska

Chuck Burnham, Research Manager

As you requested, we reviewed legislation regarding what is now known as the *Power Cost Equalization Program* (PCE—AS 42.45.100-190) since its inception. Below, we provide a brief overview of major changes to PCE. Attached is a table showing legislation considered over the years. Please note that, except for the first year of its operating budget, the table includes only legislation directed at amending the program and making appropriations to its endowment fund. In FY 81, the legislature appropriated \$2.8 million; however, Governor Hammond vetoed half of that amount. Later in that year a supplemental budget bill restored \$1.2 million, bringing total funding for the program's first year to \$2.6 million.

- **FY81:** The *Power Production Cost Assistance Program* (PPCA) was created under the Alaska Power Authority, which later became the Alaska Energy Authority. The program reimbursed utilities for a percentage of eligible power costs that exceeded the “entry rate”—85 percent of eligible costs over 7.65 cents per kilowatt hour (kWh). The “ceiling rate,” or maximum rate, was 40 cents per kWh—PPCA reimbursed utilities for 100 percent of costs that exceeded the maximum rate. Eligible costs included only production and transmission costs.
- **FY82:** The program's name was changed to the *Power Cost Assistance Program*. The entry rate was increased to 12 cents per kWh, and the ceiling rate was increased to 45 cents. Eligible costs were expanded to include administrative and distribution costs. Utilities received increased reimbursement for 95 percent of eligible costs, but *no reimbursement* for costs above the ceiling rate. In addition, “consumption caps” were set for residential and commercial consumers (600 kWh per month) and for community facilities based on population (55 kWh per month, per capita).
- **FY85:** The *Power Cost Equalization Program* was codified. The entry rate was reduced to 8.5 cents per kWh, and the ceiling rate increased to 52.5 cents. Utilities received reimbursement for 95 percent of eligible costs, but no reimbursement above the ceiling rate. Consumption caps were increased to 750 kWh per month for commercial and residential users, and to 70 kWh per month, per capita, for community facilities.
- **FY94:** Legislators established the *Power Cost Equalization and Rural Electric Capitalization Fund*. The fund was capitalized through an appropriation of \$66.9 million (Ch. 19 SLA 1993) from the Railbelt Energy Fund. In addition, legislators stated their intent to continue to support rural electrical subsidies by maintaining the fund at a minimum of \$17 million dollars each year through 2013.

Through additional appropriations and investment returns in subsequent years, the PCE Endowment Fund (AS 42.45.070) balance as of December 31, 2021, reached nearly \$1.15 billion. By law, five percent of the Fund's three-year monthly average market value may be appropriated for subsidies annually.

We include, as Attachment A, an excerpt prepared for Governor Steve Cowper by his Energy Policy Task Force in 1988 that provides additional narrative and context surrounding the development of PCE. The [Legislative Research Services](#) public archive contains numerous additional reports detailing the history of PCE and its precursors that can be accessed by searching for “power cost equalization.”

We hope you find this useful. Please contact us if you need additional information.

## Legislation Related to the Power Cost Equalization Program and Its Predecessors, 1980-2022

Legislature	Bill	Prime Sponsor	Short Title	Final Status
11th 1979-80	SB 438	Sen. Fahrenkamp	Relating to energy: Conservation of energy, development and use of alternative energy systems; AK Public Utilities Commission; amending AK Power Authority; repealing Water Resources Revolving Loan Fund, and providing for an effective date	Ch. 83 SLA 1980
	HB 1002	Rules by Request	Making a special appropriation in the fisheries business tax grant fund in the Dept. of Revenue; making appropriations to the AK Housing Finance Corp.; the Dept. of Community and Regional Affairs; the Division of Business Loans in the Dept. of Commerce and Economic Development; appropriating for the operating and capital expenses of the state government; and providing for an effective date	Ch. 120 SLA 1980
12th 1981-82	HB 359	Rules by Request	Power Cost Assistance	H Resources
	SB 174	Sen. Ferguson	Making Supplemental Appropriations to the Alaska Power Authority	Ch. 7 SLA 1981
13th 1983-84	SB 281	S Finance	Relating to energy development and conservation functions of the Dept. of Commerce and Economic Development and the Dept. of Community and Regional Affairs	Ch. 79 SLA 1983
	SB 376	Sen. Sackett	Relating to power cost assistance	Ch. 133 SLA 1984
14th 1985-86	HB 340	Rep. Marrou	Repeal Appropriation for power cost equalization	H C&RA
	HB 477	Gov. by Request	Making, amending, and repealing appropriations for energy programs	Ch. 41 SLA 1986
15th 1987-88	HB 182	H Rules	Power cost equalization program	H Resources
	HB 307	Rep. Herrmann	Limiting federal participation under the power cost equalization program	H L&C
16th 1989-90	HB 104	Rep. Cato	Power cost equalization	H L&C
	SB 301	Sen. Pourchot	Power cost equalization	S State Affairs

<b>Legislation Related to the Power Cost Equalization Program and Its Predecessors (contd.)</b>				
<b>Legislature</b>	<b>Bill</b>	<b>Prime Sponsor</b>	<b>Short Title</b>	<b>Final Status</b>
18th 1993-94	HB 216	H Finance	Relating to power cost equalization	Vetoed by Gov.
	SB 106	Sen. Sharp	Transferring certain projects of and amending and transferring programs of the Alaska Energy Authority to the Department of Community and Regional Affairs; relating to the Alaska Energy Authority; permitting the Alaska Industrial Development and Export Authority to issue revenue bonds for certain plants or facilities for energy resources; permitting utilities to form joint action agencies; authorizing the Alaska Industrial Development and Export Authority to issue revenue bonds for power transmission interties; relating to rates for a public utility that sends or receives power over certain power transmission interties; relating to the power cost equalization and capital improvement fund; amending the purpose of the Railbelt energy fund	CH. 18 SLA 1993
	SB 163	S Finance	Relating to power cost equalization	S Rules
20th 1997-98	HB 336	Rep. Kubina	Relating to eligibility for power cost equalization	H Finance
21st 1999-2000	SB 157	S Finance	Relating to power cost equalization; relating to appropriations from the National Petroleum Reserve - Alaska special revenue fund to the power cost equalization and rural electric capitalization fund; relating to the power cost equalization and rural electric capitalization fund and the four dam pool transfer fund; and providing for an effective date	Ch. 93 SLA 1999
	SB 182	Sen. Taylor	Power cost equalization endowment	S C&RA
	HB 447	H Rules by Request of the Gov.	Making appropriations relating to power cost equalization and the sale of the four dam pool hydroelectric project and to capitalize funds	Ch. 75 SLA 2000
	SB 306	S Rules by Request of the Gov.	Establishing and relating to the power cost equalization endowment fund; relating to the power cost equalization and rural electric capitalization fund; authorizing and relating to the sale of the four dam pool hydroelectric project; establishing and relating to joint action agencies created to purchase power projects	S C&RA
	SB 307	S Rules by Request of the Gov.	Making appropriations relating to power cost equalization and the sale of the four dam pool hydroelectric project and to capitalize funds	S Finance
22nd 2001-02	SB 185	S Finance	Relating to the basis for determining eligibility for and the amount of power cost equalization payments	H C&RA

**Legislation Related to the Power Cost Equalization Program and Its Predecessors (contd.)**

Legislature	Bill	Prime Sponsor	Short Title	Final Status
23rd 2003-2004	SB 337	S Rules by Request of the Gov.	Relating to the powers of the Alaska Energy Authority to make grants and loans, to enter into contracts, and to improve, equip, operate, and maintain bulk fuel, waste energy, energy conservation, energy efficiency, and alternative energy facilities and equipment; relating to the bulk fuel revolving loan fund; relating to the Alaska Energy Authority's liability for the provision of technical assistance to rural utilities; relating to the Alaska Energy Authority's investment of the power development fund; repealing the electrical service extension fund	Ch. 36 SLA 2004
25th 2007-08	SB 4002	S Rules by Request of the Gov.	Amending the bulk fuel bridge loan fund and the bulk fuel revolving loan fund; relating to power cost equalization; relating to Alaska resource rebates, and increasing the amount of the 2008 permanent fund dividend to provide that rebate; suspending the motor fuel tax; eliminating the authority to make certain provisions of the heating assistance program retroactive to November 1, 2007	Ch. 2 4SSLA 2008
	SB 4003	S Rules by Request of the Gov.	Amending the bulk fuel bridge loan fund and the bulk fuel revolving loan fund; relating to power cost equalization; relating to Alaska resource rebates, and increasing the amount of the 2008 permanent fund dividend to provide that rebate; suspending the motor fuel tax; eliminating the authority to make certain provisions of the heating assistance program retroactive to November 1, 2007	S Finance
	SB 4006	S Rules by Request of the Gov.	Amending the power cost equalization program, repealing the exclusion from eligibility for power cost equalization for certain power projects that take their power from hydroelectric facilities, and amending the definition of 'eligible electric utility' as it applies to the power cost equalization program and the grant program for small power projects for utility improvements	S Finance
26th 2009-10	SB 88	S Finance	Repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, Ch. 2, 4SSLA 2008	Ch. 59 SLA 2009
27th 2011-12	HB 294	Rep. Edgmon	Relating to the power cost equalization program	H Finance
28th 2013-14	HB 39	Rep. Edgmon	Relating to the power cost equalization program	H Energy
29th 2015-16	HB 86	H Rules by Request of the Gov.	Relating to investment of the power cost equalization endowment fund	H Finance

Legislation Related to the Power Cost Equalization Program and Its Predecessors (contd.)				
Legislature	Bill	Prime Sponsor	Short Title	Final Status
29th 2015-16 (contd.)	SB 34	S Rules by Request of the Gov.	Relating to investment of the power cost equalization endowment fund	Ch. 11 SLA 2015
	SB 196	Sen. Hoffman	Relating to the amount appropriated for power cost equalization; relating to the use of certain unexpended earnings from the power cost equalization endowment fund	Ch. 43 SLA 2016
32nd 2021-22	HB 56	Rep. Foster	An Act relating to power cost equalization; relating to the power cost equalization endowment fund	H C&RA
<p><b>Notes:</b> This table excludes annual appropriations in operating budget bills. Although we believe our research to be thorough, there may be additional legislation impacting rural energy cost subsidy programs that we did not identify.</p> <p><b>Source:</b> Reviews of the subject summary categories "energy" and "utilities" in BASIS online (1993-2022) and <i>Summary of Alaska Legislation</i> publications (1980-1992).</p>				

## **Attachment A**

Excerpt from: "Energy Policy Report: The Power Cost Equalization Program, Prepared for the Governor's Energy Policy Task Force," Office of the Governor, Division of Policy, January 1988, pp. 7-12

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Energy Policy Report:

# The Power Cost Equalization Program

Prepared for the Governor's Energy Policy Task Force

Division of Policy  
Office of the Governor  
January 1988

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STATE OF ALASKA

STEVE COWPER, GOVERNOR

### III. HISTORY OF THE PCE PROGRAM

#### The Electrification of Rural Alaska

The electrification of rural Alaska essentially began during the late 1950's when the Bureau of Indian Affairs (BIA) installed diesel generators in schools that it had built or was building in many villages. However, power from these generators was not available for residential or commercial use.<sup>4</sup>

During the 1960's, the BIA continued to bring schools and electricity to the rural villages. By this time, all of the larger rural communities and some of the villages had utilities to serve residential and commercial consumers. In 1965, the smaller communities that were served by utilities included Unalakleet, Point Hope, McGrath, and Naknek in Western Alaska; Glenallen, Fort Yukon, and Tok in the Interior; and Craig, Hydaburg, Skagway, Haines, Pelican, Hyder, Yakutat, Hoonah, and Metlakatla in Southeast Alaska.<sup>3</sup> In 1968, the Alaska Village Electric Cooperative (AVEC) was organized to electrify a number of villages in rural Alaska. Between statehood (1959) and FY70, 16 unincorporated villages received electrification grants from the State.<sup>4</sup>

By the mid-70's, about 85 rural communities, mostly with less than 200 residents, were without a centralized power utility.<sup>4</sup> However, that was soon to change. In 1977, the Trans-Alaska pipeline began operation and revenues from North Slope oil became a major source of revenue for the State. The State was now able to provide funding for many of the basic essentials that were lacking in many villages, such as electricity.

#### Development of the PPCA Program

The first attempt to provide a State subsidy for rural electric rates was apparently in 1978, when the Alaska Public Interest Research Group proposed a lifeline rate as part of a utility reform bill that it had drafted. This bill was introduced in the Legislature that year but it had no hearings. The lifeline rate recognized the economic hardships that escalating oil prices were creating in rural Alaska. The proposal would have had the State provide a subsidy for the first 200 KWH per month consumed by residential customers of rural utilities. During the interim, the Legislature established a State Energy Policy Committee to work on a comprehensive list of energy issues that included rate subsidies.<sup>5</sup>

Later that year, the Governor's Office held discussions with other agencies regarding what assistance, if any, should the State provide relative to the electrical needs of its residents. One important concern at the time was the financial stability of rural utilities, particularly AVEC. This effort led to a report in April 1979 by Arthur Young and Company for the Division of Energy and Power Development entitled A Discussion Of Considerations



Pertaining To Rural Energy Policy Options that suggested a State subsidy of electric rates for rural consumers.

In 1979, world oil prices nearly tripled and the State's unrestricted revenues increased from \$1.1 billion in FY 79 to \$2.5 billion in FY 80. This set the stage for the State's rural electrification programs during the early 1980's. The surge in revenues allowed the State to increase its electrification grants. But higher oil prices also greatly increased the cost of generating electricity in rural Alaska. The Legislature needed a double-barrelled approach if it were to not only provide rural Alaska with electricity but also make it affordable.

Arthur Young and Company prepared a second report, dated January 1980, for Representative Nels Anderson entitled A Concept for Power Production Assistance To Electric Utilities. This report described in detail how the State could subsidize the power generation costs of rural utilities. Based on the program proposed in the report, Representative Anderson introduced a bill that year to establish the Power Production Cost Assistance (PPCA) program. This bill became part of HCS SB 438, the omnibus energy bill. Following is a description of PPCA and its amended versions, PCA and PCE.

In addition to the PPCA Program, 1980 (FY81) marked the beginning of several other State energy programs which affected rural Alaska. These programs are described in Appendix A.

#### A. Power Production Cost Assistance

The PPCA program was designed so that the State, rather than the consumer, would pay for a portion of the generation and transmission (but not distribution) costs incurred by eligible utilities. Only residential customers, community facilities, and charitable organizations of eligible utilities were allowed to benefit from the program. The type of costs that were eligible for payment were referred to as power production costs and included the following:

- fuels
- purchased power
- operation and maintenance
- depreciation
- taxes
- insurance
- interest on debt

The monthly PPCA payment for a utility was calculated by subtracting its actual power production costs from an adjusted cost that was to be set each year by the Alaska Public Utilities Commission (APUC). The adjusted cost consisted of a base cost of 7.65 cents per KWH (adjusted annually for inflation) plus 15 percent of the eligible costs up to 40 cents per KWH. This meant that the PPCA program paid for

85 percent of a utility's eligible costs that were between 7.65 and 40 cents per KWH and 100 percent of the costs over 40 cents per KWH.

The only criteria that a utility had to meet to qualify for the program was to have production costs that exceeded the base level and to document its costs to APUC's satisfaction. Administration of the program was divided between two agencies. The APUC was to verify production costs and establish the adjusted cost, and the APA was to make payments to the utilities.

Governor Jay Hammond voiced a number of objections to the new legislation. In a letter to the Legislature he stated, "The current design of this electric power subsidy program has a number of defects. The distribution of benefits is inequitable, inefficiencies are encouraged, incentives to conserve energy and search for alternatives are diminished, program administration is cumbersome, and total cost is uncertain. I gave serious thought to vetoing the bill in order to prevent the creation of a program, which I believe establishes a dangerous precedent. However, because of the many worthwhile and crucially needed elements of the bill, I feel I must accept the power production subsidy as well. However, I intend to submit legislation which will modify the subsidy design in order to reduce the problems noted above."

The Legislature appropriated \$2.8 million for the program but Governor Hammond, by veto, reduced this to \$1.4 million. However, towards the end of its first year, the program was running out of money and \$1.2 million of this funding was restored by a supplemental appropriation.

## B. Power Cost Assistance

In 1981, Governor Hammond introduced legislation to amend the PPCA program. The proposed amendments were to make the program more equitable but restrict its growth by:

- allowing payment for administrative and distribution costs as well as production costs,
- simplifying reporting requirements so that utilities without sophisticated accounting records could partake in the program,
- limiting the subsidy to the first 200 KWH per month per consumer,
- raising the entry level to 15 cents per KWH, and
- adding 2 cents per KWH hour each year for ten years at which time the program would be terminated.

Fiscal constraints were not in tune with most of the Legislature that year. State revenues were at a record high and expected to increase in future years.

continuing appropriations for major power projects and programs, became the omnibus energy bill.

The PCE program received an appropriation of \$16.3 million for the remainder of FY 85 (Oct.-June) plus a continuing appropriation in SB 409 of \$21.7 million every following year. The Susitna and Bradley lake projects were also given continuing appropriations. Trustees of Alaska, a public interest organization, legally challenged the constitutionality of continuing appropriations and won. The next session, the Legislature repealed the continuing appropriations which made mute any further appeal of this decision.

The goal of the Power Cost Equalization (PCE) program was to provide rural utilities with sufficient subsidy so that rates to their consumers would nearly equal mean rate for Anchorage, Fairbanks and Juneau utilities. This was accomplished by:

- Establishing the base rate at 8.5 cents per KWH for the first year (FY 85) with annual adjustments by the APUC (although no adjustments have yet to occur).
- Increasing the ceiling to 52.5 cents per KWH.
- Keeping the subsidy share at 95 per cent of eligible costs.
- Increasing the cap for community facilities from 55 to 70 KWH per month per resident.
- Increasing the cap for all other customers from 600 to 750 KWH per month.

Conditions were established in order to eliminate urban areas and Four Dam Pool utilities from participating in the PCE program. Only utilities that had sold less than 7,500 MWH's to residential customers in 1983 and used diesel engines to generate more than 75 percent of its load in 1984 were eligible for the program. This eliminated Kodiak and Port Lions from the program and precluded Valdez, Petersburg, Wrangell, and Ketchikan from entering the program.

Table 1 provides a statistical history of the PPCA/PCA/PCE program. The growth trends indicated by some of these statistics were reduced when Copper Valley Electric Association no longer participated in the PCA program in FY 83 and when Kodiak Electric Association was excluded from participating in the PCE Program. Each of these utilities accounted for a substantial number of customers and KWH consumption.

D. Pending Legislation

In 1987, Governor Steve Cowper proposed two significant changes to PCE: (1) a 20 percent reduction in the PCE budget for FY 88, and (2) House Bill 182 to amend the PCE program.

1. At the time, full funding for the PCE program was expected to cost about \$16.8 million which would be 22 percent more than the FY 87 revised appropriation of \$13.8 million. The Governor's budget proposed an FY 88 appropriation of \$11.1 million for the PCE program, a reduction of 20 percent from FY 87, which was consistent with cuts in revenue sharing and municipal assistance budgets. However, because of an expected \$3.2 million carry-over from FY 87, the actual level of funding would have been \$14.3 million.

The 1987 Legislature appropriated \$15.1 million to the PCE program. This appropriation, together with a larger than expected carry-over of \$4.2 million from previous years, funded the program at \$19.3 million for FY 88. This level is expected to nearly provide full funding for the program.

2. House Bill 182, which amends the PCE program, was introduced by Governor Cowper in the first session of the Fifteenth Legislature. The principal objective for introducing this bill was to establish residential customers as the first priority, community facilities as the second priority, and commercial customers as the third priority for program funding if appropriations should not be enough to cover the cost of the program for the entire fiscal year. As the statutes now read, budget shortfalls are to be prorated, which means that all classes of consumers would experience proportional reductions in benefits.

Other statutory changes proposed by Governor Cowper would:

- reduce the cap for community facility users from 70 to 50 KWH per month per resident,
- reduce the cap for residential and commercial users from 750 to 500 KWH per month,
- redefine "community facility" to include only facilities essential to public health, safety and welfare.

The House Labor and Commerce Committee amended HB 182, the most significant amendment being a provision that reduced the cap on eligible PCE consumption from 500 KWH per month to 250 KWH per month over a period of five years. With this amendment, PCE would become essentially a lifeline rate. The legislation is now under consideration in the House Resources Committee.