

HOUSE FINANCE COMMITTEE  
January 26, 2006  
1:39 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:39:03 PM](#).

MEMBERS PRESENT

Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Carl Moses  
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Mike Chenault, Co-Chair  
Representative Beth Kerttula

ALSO PRESENT

Jim Dalman, Division of Public Assistance, Department of Health and Social Services; Mary Rigggen-ver, Division of Public Assistance, Department of Health and Social Services; Laura Baker, Budget Chief, Division of Administrative Services, Department of Health and Social Services; Mike Harper, Deputy Director of Rural Energy, Alaska Energy Association; Terri Harper, Program Manager, Power Cost Equalization, Alaska Energy Authority; Sara Fisher Goad, Financial Analyst, Alaska Energy Authority; Kate Giard, Chair, Regulatory Commission of Alaska; Felix Meendez, CPA, Utility Financial Analyst; Meera Kohler, President and CEO, Alaska Village Electric Cooperative; Representative Mary Kapsner; Representative Gabrielle LeDoux; Representative Bill Thomas; Representative Berta Gardner; Representative Woodie Salmon

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

**OVERVIEW - POWER COST EQUALIZATION/LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 24th Legislative Session, contact 465-6814. After the 24th Legislative Session they will be available through the Legislative Library at 465-3808.

**LOW INCOME HOME ENERGY ASSISTANCE PROGRAMS**

<b>TIME</b>	<b>SPEAKER</b>	<b>DISCUSSION</b>
<a href="#">1:39:08 PM</a>	Co-Chair Meyer	Introduced visiting legislators.
<a href="#">1:40:59 PM</a>	JIM DALMAN, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES	Explained the purpose of the Low Income Home Energy Assistance Program (LIHEAP) run under the Department of Health and Social Services as the Heating Assistance Program (HAP). It is federally funded by a single block grant of close to \$12 million. A portion of that grant also funds eight Alaska Native organizations that run similar programs.
<a href="#">1:42:50 PM</a>	Mr. Dalman	Reported that the program provides a single annual benefit to qualifying households beginning on November 1. Forty percent of these households are working people who are not receiving other forms of public assistance. The grants are typically paid to the home energy vendor and vary according to the size of household, area where it resides, income, and the fuel type. The grants vary from \$200 to over \$1,000 with the average at around \$800. Roughly 10,500 households will be served this year. The benefit is not intended to see a family through a whole year, but to offset energy costs.
<a href="#">1:45:56 PM</a>	Mr. Dalman	Shared the problems related to an increase in home heating costs this year. One of the conditions of the block grant is that it can be transferred to AHFC to augment weatherization expenses. Nearly 1/3 of the grant gets distributed to Native organizations.
<a href="#">1:48:22 PM</a>	Mr. Dalman	Expressed pride as to how well the program is working. The HAP is well run and serves a good purpose.
<a href="#">1:49:26 PM</a>	Representative Joule	Asked about the range of price per gallon of home heating fuel. Mr. Dalman said it ranges dramatically, but is distributed proportionally.
<a href="#">1:50:32 PM</a>	REPRESENTATIVE MARY KAPSNER	Pointed out that the federal government is advocating \$100 million more funding

		for LIHEAP nationwide. She inquired if the benefit to consumers would be about 21 gallons per household. Mr. Dalman replied that it sounds about right. He explained how the emergency contingency fund money is released and distributed.
<a href="#">1:51:44 PM</a>	MARY RIGGEN-VER, DIVISION OF PUBLIC ASSISTANT, DEPARTMENT OF HEALTH AND SOCIAL SERVICES	Added that the state receives about two-thirds, and the tribes one-third. She pointed out that even with the additional funding, the amount is not equal to last year's funding.
<a href="#">1:52:34 PM</a>	Representative Kapsner	Requested to know the amount that the governor is proposing as a state match of funds.
<a href="#">1:52:46 PM</a>	LAURA BAKER, BUDGET CHIEF, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES	Responded that the governor has proposed \$8.8 million in state general funds to supplement the LIHEAP program. A portion of that money would go to Native tribal programs.
<a href="#">1:53:05 PM</a>	Mr. Dalman	In answer to a question from Representative Kapsner about how much of the additional \$100 million would go to the state, replied that the amount of the contingency funding was about \$300,000. The state LIHEAP block grant for the year was \$11.9 million.
<a href="#">1:53:34 PM</a>	REPRESENTATIVE BERTA GARDNER	Asked about the timing of heating assistance applicants and availability of funds at the end of the application period. Mr. Dalman replied that everyone who has applied in the past has been served. If there were more applicants than funding available, then the regulations would require a halt in services.
<a href="#">1:55:00 PM</a>	Ms. Rigen-ver	Agreed and added that it is "first come, first served".
<a href="#">1:55:16 PM</a>	Representative Weyhrauch	Asked if the agency provides incentives for fuel cost savings, such as alternative sources of energy. Mr. Dalman replied that indirectly it does. There is a provision for the transfer of some grant funds for weatherization of low-income homes. There are no funds for alternative energy sources.
<a href="#">1:56:55 PM</a>	Representative	Asked how the payment is made. Mr.

	Weyhrauch	Dalman replied that the grant is set up as a credit on the customer's home energy bill, and as cash for renters. Representative Weyrauch asked if it is a problem keeping track of whether the cash is used for home heating assistance. Mr. Dalman explained the process when cash is used for direct payments to the provider. Ms. Riggner further explained that the program would pay for up to a year's electric credit before issuing cash.
<a href="#">1:58:48 PM</a>	Mr. Dalman	Added that often special funding is received later in the year and can provide supplemental funding to a supplier.
<a href="#">1:59:30 PM</a>	Representative Stoltze	Asked why the money is not given to the landlord. Mr. Dalman replied that heating expenses are built into rent increases and the program serves renters.
<a href="#">2:00:46 PM</a>	Representative Kapsner	Suggested that the renter would have the lower income and qualify, not the landlord. Ms. Riggner agreed.
<a href="#">2:01:20 PM</a>	Representative Joule	Asked if there is any tracking of money spent on weatherization. Ms. Riggner replied that Alaska Housing Finance Corporation (AHFC) has some of the figures, but they are difficult to track.
		<b>POWER COST EQUALIZATION PROGRAM</b>
<a href="#">2:03:11 PM</a>	KATE GIARD, CHAIR, REGULATORY COMMISSION OF ALASKA	Introduced the presenters and described how the Price Cost Equalization (PCE) program is delivered. The PCE program is administered jointly by the Alaska Energy Authority (AEA) and the Regulatory Commission of Alaska (RCA). AEA administers the overall program and the funding, and RCA administers the calculations of the reimbursements. She referred to a handout published by the Regulatory Commission of Alaska (RCA) entitled "Certificated Utilities by Legislative District" (copy on file.)
<a href="#">2:06:16 PM</a>	Ms. Giard	Referred to a handout "Power Cost Equalization Costs and Rates" (copy on file.)
<a href="#">2:07:15 PM</a>	FELIX MEENDEZ, CPA, UTILITY FINANCIAL ANALYST	Explained how PCE is administered. He referred to a set of slides "PCE Program Overview for the House Finance Committee" (copy on file.) He described the process that RCA uses to

		review reports to verify compliance with efficiency standards to find eligible costs.
<a href="#">2:12:11 PM</a>	Mr. Meendez	Related how PCE rates are determined.
<a href="#">2:13:00 PM</a>	Mr. Meendez	Shared rate statistics. He provided statistics regarding the mean of the cost per kWh in Anchorage, Fairbanks, and Juneau (copy on file.)
<a href="#">2:15:10 PM</a>	REPRESENTATIVE WOODIE SALMON	Asked if the rate is based on the urban area average. Mr. Meendez replied that is one of the considerations in the way the rate is determined. The purpose of the program is to close the gap between urban and rural expenses, and the program doesn't kick in until 12 cents per kWh is exceeded.
<a href="#">2:16:01 PM</a>	Mr. Meendez	Explained the average split of power cost per kWh.
<a href="#">2:17:25 PM</a>	Ms. Rikken-ver	Called attention to the spreadsheet, which clarified the impact of hydroelectric power or other alternate types of fuel on the average fuel cost of utilities.
<a href="#">2:18:06 PM</a>	Mr. Meendez	Explained the average cost trend of fuel in the last five years.
<a href="#">2:18:51 PM</a>	Representative Stoltze	Asked if the cost included cleanup from spills. Mr. Meendez clarified that costs included fuel delivery, and the costs for spills may be covered, but only if there is no negligence involved.
<a href="#">2:20:26 PM</a>	Mr. Meendez	Shared the graph on power cost per kWh, the average of which is 42 cents per kWh. There are many utilities that do not fall within the eligibility rate of 38 cents or more per kWh.
<a href="#">2:22:25 PM</a>	Representative Kapsner	Asked if the rate included tax. Mr. Meendez replied that property tax and income tax are included in the utilities' revenue. Representative Kapsner expressed that Napakiak is paying more than 68 cents per kWh due to sales tax costs. Ms. Rikken-ver clarified that if a utility pays a tax, then that is included in the cost base. She said Representative Kapsner is correct in her assumption.
<a href="#">2:24:20 PM</a>	Mr. Meendez	Referred to the spreadsheet "Power Cost Equalization Costs and Rates" (copy on file), which shows the wide range of what utilities are charging.
<a href="#">2:24:55 PM</a>	Representative	Asked how communities with wind

	Joule	generation would be reflected on this chart. Mr. Meendez replied that Wales, Kotzebue, and Sand Point have wind generators and are included on the chart.
<a href="#">2:25:53 PM</a>	Ms. Riggen-ver	Referred Representative Joule to the second page of the spreadsheet. She explained that those villages have less than half of their fuel costs covered because they do have alternative power sources.
<a href="#">2:27:12 PM</a>	Mr. Meendez	Discussed the graph on out of pocket expenses for a 500 kWh bill. Representative Joule asked how much usage 500 kWh equals. Ms. Riggen-ver gave examples of two households that use 500 kWh.
<a href="#">2:28:56 PM</a>	Representative Stoltze	Asked if facility charges are included. Mr. Meendez explained utility bill charges.
<a href="#">2:30:34 PM</a>	Mr. Meendez	In response to a question from Representative Salmon, related that the utilities that are eligible for federal monies use diesel fuel and are not connected to a central power. Ms. Riggen-ver explained that there are rural electric utilities that are excluded from the program for not filing.
<a href="#">2:32:49 PM</a>	Mr. Meendez	Related how rates are calculated for Andreanof Electric Corporation as shown on the spreadsheet.
<a href="#">2:34:48 PM</a>	Ms. Riggen-ver	Explained that the last column shows the amount of the customer bill for 500 kWh.
<a href="#">2:35:38 PM</a>	Representative Holm	Inquired why the current PCE rate is greater than the cost per kWh in many instances. Ms. Riggen-ver explained the process.
<a href="#">2:37:30 PM</a>		At-Ease
		<b>ALASKA ENERGY AUTHORITY</b>
<a href="#">2:38:47 PM</a>		Reconvene
<a href="#">2:38:56 PM</a>	MIKE HARPER, DEPUTY DIRECTOR OF RURAL ENERGY, ALASKA ENERGY AUTHORITY	Introduced himself and his staff, Sara Fisher Goad and Terri Harper.
<a href="#">2:40:21 PM</a>	Mr. Harper	Provided an overview of PCE in rural Alaska, which affects 86 utilities, spread over 183 communities, and over

		20,000 customers. He stated that there are over 400 million kWh sold by utilities in the bush, with about 1/3 eligible for PCE.
<a href="#">2:41:17 PM</a>	Mr. Harper	Noted that Governor Murkowski is in support of the program. He thanked the legislature for funding last year's costs. Full cost coverage has been requested in the FY06 supplemental budget of \$5.7 million. The request for FY07 is for \$25 million to approach full funding.
<a href="#">2:41:58 PM</a>	SARAH FISHER-GOAD, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY	Spoke to the endowment, which was created in FY01. The fund is managed by the Department of Revenue and it managed to earn 7 percent over time. 7 percent of the 3-year monthly market value is available for the program. The earnings rate in FY05 was 8.78 percent above the 7 percent statutory requirement.
<a href="#">2:43:25 PM</a>	Ms. Goad	Commented that for FY07, \$11.67 million dollars is available for the program.
<a href="#">2:43:49 PM</a>	Representative Kapsner	Asked for further clarification about the endowment.
<a href="#">2:44:16 PM</a>	Ms. Goad	Replied that the endowment is set up as a percent of market value fund. She explained how it works and the current earnings rate.
<a href="#">2:45:08 PM</a>	Ms. Goad	Related that the current endowment fund balance is over \$179 million dollars. The fund is doing very well.
<a href="#">2:45:30 PM</a>	Representative Kapsner	Inquired if it is still growing at 1.78 percent each year. Ms. Goad explained the average earnings and the statutory requirement. She summarized that the fund is earning as anticipated.
<a href="#">2:46:35 PM</a>	Representative Kapsner	Recalled that when the endowment was created in FY01 it was capitalized at \$180 million. She asked if the \$250 million is now needed in order to sustain the fund over time.
<a href="#">2:46:58 PM</a>	Ms. Goad	Replied that \$300 million would provide 7% over time. It depends on the investment level.
<a href="#">2:47:26 PM</a>	Representative Kapsner	Asked if it should be at \$300 million.
<a href="#">2:47:41 PM</a>	Ms. Goad	Replied that full funding of the program is \$25 million right now. There are variables at play.
<a href="#">2:48:16 PM</a>	Representative Kapsner	Asked what the number should be. She noted past confusion by members. She

		asked, for the record if it is fully endowed.
<a href="#">2:48:47 PM</a>	Ms. Goad	Responded that the original fund was a \$15.7 million appropriation. The endowment was set up and the 7 percent was assumed to provide approximately \$13 million for the program. On a historical level the endowment is producing as anticipated.
<a href="#">2:49:50 PM</a>	Representative Joule	Asked if it could be inflation proofed.
<a href="#">2:50:01 PM</a>	Ms. Goad	Replied that no additional funds go into the endowment. It is not inflation proofed.
<a href="#">2:50:19 PM</a>	TERRI HARPER, PROGRAM MANAGER, POWER COST EQUALIZATION, ALASKA ENERGY AUTHORITY	Offered to answer questions.
		<b>ALASKA VILLAGE ELECTRIC COOPERATIVE</b>
<a href="#">2:51:05 PM</a>	MEERA KOHLER, PRESIDENT & CEO, ALASKA VILLAGE ELECTRIC COOPERATIVE	Provided members with a handout "Power Cost Equalization - Myths and Realities" (Copy on File). She provided an overview on PCE.
<a href="#">2:52:15 PM</a>	Ms. Kohler	Shared the history of PCE. In 1977 there was almost no transmission of oil, diesel fuel was the prime source of fuel, and there was very little hydropower.
<a href="#">2:53:27 PM</a>	Ms. Kohler	Once the oil started flowing down the pipeline, the state began to spend its newfound wealth. A transmission line to Fairbanks was started.
<a href="#">2:54:32 PM</a>	Ms. Kohler	The first assistance program began in 1979 as oil prices peaked and diesel-fueled utilities were hit hard. The legislature established the Power Production Cost Assistance Program.
<a href="#">2:55:38 PM</a>	Ms. Kohler	In 1984, consultants admitted defeat and the legislature established Power Cost Equalization. The limit was based on 700 kWh for each member of the community.
<a href="#">2:57:54 PM</a>	Ms. Kohler	Pointed out that the guideline from 1984 that 75 percent of a community's energy had to come from diesel fuel is still in place today.
<a href="#">2:58:30 PM</a>	Ms. Kohler	Shared the current situation in 2006:

		the floor has been raised to 12 cents, eligible electricity has been reduced to 500 kWh, only one meter per resident is allowed, 6,000 commercial customers are ineligible, there is chronic under-funding, annual fuel cost has doubled in 15 years, non-fuel costs are up 50 percent, current funding (\$18.7 million) is at the 78 percent level, and more utilities are crossing through the 52.5 cent ceiling.
<a href="#">3:00:05 PM</a>	Ms. Kohler	Spoke about Alaska Village Electric Cooperative (AVEC), which consists of 52 villages, a population of 22,000, with 94 percent Alaska Native.
<a href="#">3:00:52 PM</a>	Ms. Kohler	Pointed out the location of the villages on the slide. Most are not accessible in the winter.
<a href="#">3:01:22 PM</a>	Ms. Kohler	Spoke to AVEC's system statistics: 48 power plants, 160+ diesel generators, 500+ fuel tanks, and 5 million gallons of fuel burned.
<a href="#">3:01:49 PM</a>	Ms. Kohler	Provided the 2004 overview with 7,122 residential and commercial services and with \$24.7 million in revenues. PCE equals 26% of revenue, which is modest usage.
<a href="#">3:02:56 PM</a>	Ms. Kohler	The biggest creditor is the AEA.
<a href="#">3:03:28 PM</a>	Ms. Kohler	Referenced the slide indicating the 1973-2004 fuel prices.
<a href="#">3:04:23 PM</a>	Ms. Kohler	Highlighted the graph of historical costs. With the exception of 1995, a year in which costs dropped, the profits are modest. In the most recent three years, the gross has risen to \$28 million dollars because of the raise in fuel costs.
<a href="#">3:05:24 PM</a>	Ms. Kohler	Provided information on the loss of usage. The gross revenue has increased since 2004. Projected margins for 2006 are \$0.
<a href="#">3:06:02 PM</a>	Ms. Kohler	Identified some of the challenges faced by the plant in Gambell.
<a href="#">3:06:53 PM</a>	Ms. Kohler	Clarified Myth # 1 - PCE reduces rural power cost to urban levels.
<a href="#">3:07:33 PM</a>	Ms. Kohler	Showed the cost of 700 residential kWh for various communities. She dispelled Myth # 2 - PCE discourages conservation and innovation.
<a href="#">3:09:49 PM</a>	Ms. Kohler	Highlighted AVEC costs from the 2004 report. Dispelled Myth # 3, that PCE villages have no plant investment, and

		Myth #4, that PCE is abused.
<a href="#">3:12:30 PM</a>	Ms. Kohler	Explained Myth #5 - PCE money would be better spent on alternative energy is incorrect.
<a href="#">3:14:18 PM</a>	Ms. Kohler	Showed an aerial view of the new power plant, tank farm, and wind turbines in Selawik.
<a href="#">3:15:10 PM</a>	Representative Stoltze	Spoke about the addition of Teller. Ms. Kohler provided the history of Teller.
<a href="#">3:17:07 PM</a>	Representative Kelly	Praised Ms. Kohler's work with the Alaska Village Electric Cooperative.
<u>ADJOURNMENT</u>		
The meeting was adjourned at 3:19 PM		