

HOUSE FINANCE COMMITTEE
July 24, 2008
9:06 a.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [9:06:39 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative Harry Crawford
Representative Richard Foster
Representative Mary Nelson

ALSO PRESENT

Representative John Coghill, Representative Anna Fairclough, Representative Ralph Samuels, Sarah Fisher-Goad, Deputy Director of Operations, Alaska Industrial Development and Export Authority and Alaska Energy Authority, Department of Commerce, Community and Economic Development; Jay Livey, Staff, Senator Lyman Hoffman; David Teal, Director, Legislative Finance Division; Meer Kohler, President CEO, Alaska Village Electric Cooperative.

PRESENT VIA TELECONFERENCE

Bob Pickett, Chairman, Regulatory Commission of Alaska; Dennis Wheeler, Advisory Section Manager, Regulatory Commission of Alaska; Mary Vittone, Utility Tariff Analyst, Regulatory Commission of Alaska.

SUMMARY

HB 4005 An Act 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; and providing for an effective date.

HB 4005 was HEARD and HELD in Committee for further consideration.

#hb4005

HOUSE BILL NO. 4005

An Act 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; and providing for an effective date.

[9:08:48 AM](#)

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA ENERGY AUTHORITY (AEA), DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, provided an overview of the Power Cost Equalization (PCE) program and background information for HB 4005. The PCE program was established in 1985 as an economic assistance program to address the high cost of energy in rural areas that were not receiving the benefits of the larger infrastructure projects the state was building at that time. Two programs preceded the PCE program: the Power Production Assistance Program, and the Power Cost Assistance Program. The first was a one-year program in 1980 and the other ran for about five years before it was replaced by the PCE program in 1985.

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Ms. Fisher-Goad explained that in order for an electric utility to be eligible for PCE reimbursement, it had to provide electric service for compensation and had to have provided residential consumption of less than 7,500 Megawatt Hours (MWH) during calendar year 1983, or if serving more than one community, less than 15,000 MWH. Additionally, the utility had to have produced more than 75 percent of its electricity in 1984 using diesel generators.

Ms. Fisher-Goad added that a residential customer is eligible for PCE reimbursement for up to 500 KWH per month; community facilities are also eligible for PCE subsidies up to 70 kilowatt hours (KWH) per month multiplied by the community population.

Ms. Fisher Goad explained that the administration of the program is carried out by two agencies. The Regulatory

Commission of Alaska (RCA) determines the PCE level for each community based on fuel expenses, including purchase price and transportation, along with non-fuel expenses, including overhead costs of the utility such as salaries, insurance, taxes, interest on debt service, and other costs. The second agency that administers the program is AEA.

[9:13:29 AM](#)

Representative Gara noted that the Committee has raised questions regarding whether a utility would be eligible for PCE if it generated power from sources other than diesel, such as wind power. He asked for clarification regarding the eligibility standards for utilities with multiple power sources.

Ms. Fisher-Goad explained that the two components of the PCE reimbursements are fuel and non-fuel costs. At the program's inception, the eligibility of a utility or community was determined by the amount of electricity generated and how that was generated in 1984. Cordova is an example of a utility that has moved from diesel toward hydro to generate electricity and has remained eligible for PCE. Cordova's power costs have changed to incorporate more stable fuel costs, but also include increased debt service costs. A utility is still eligible for PCE as its mix of fuel and non-fuel costs change if its other qualifications remain the same.

[9:15:25 AM](#)

Representative Gara reiterated his original concern that a community would have no incentive to switch to alternative energy power generation such as hydro or wind if only diesel is eligible for PCE. For example, if a community such as Cordova were looking to increase its hydro component, would it remain eligible for PCE regardless of the source of its power, as long as the costs of the power met the PCE program's eligibility criteria?

Ms. Fisher-Goad responded that she believed a utility would remain eligible in such a circumstance. She noted that representatives of the Regulatory Commission of Alaska were standing by to answer questions of that nature, and she offered to meet later with Representative Gara to discuss some of the alternative energy sources that are eligible for PCE.

Representative Gara elaborated that his fundamental question is whether a community such as Kotzebue, faced with the need to expand its power production, would choose to install additional diesel instead of wind power because only the diesel-produced power would qualify for PCE subsidies. He suggested the Committee would want to address the issue if

the program has an inherent incentive to choose diesel over other power sources, although he assumed that was not the case.

Ms. Fisher-Goad affirmed that she believed Representative Gara's assumption was correct. She noted that PCE does not affect all electric power generated in rural Alaska. A utility, in making decisions regarding the installation of new power sources, would be looking at minimizing its overall generation costs, not just the costs eligible for PCE credits.

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Vice-Chair Stoltze asked whether, in the original rationale for the PCE program paring off the major power projects of the urban areas with the PCE program for rural communities, the Susitna Hydro project was considered a done deal.

Ms. Fisher-Goad replied that for an answer she would have to go back and ask the people who were involved in the program at that time. While the Susitna project may have been a factor in the deliberations, the utilities that were specifically determined ineligible for the PCE program were the Four-Dam Pool projects. She will check further and get back to Representative Gara with more information.

Vice-Chair Stoltze noted that there are various people still available, such as Mr. Dawson and Mr. Markley, who were involved originally and could shed light on the role the Susitna Hydro project played in the crafting of the PCE program.

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Representative Kelly agreed that the Susitna project preceded the Four-Dam Pool and was the big engine driving the entire concept of a hydropower utility base for the urban areas. When that project fell by the wayside, leftover funds were reallocated to the Bradley Lake project and other components of the Four-Dam Pool.

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Ms. Fisher-Goad returned to the subject of PCE program administration. The AEA administers the PCE program based upon fiscal appropriations by the Legislature. The agency works with participating utilities to evaluate their monthly reports, determining the level of reimbursements and distributing them. The AEA also evaluates the eligibility of residential customers.

Ms. Fisher-Goad explained that the RCA's role is to set the PCE level by calculating the lesser of the rate charged by

the utility or eligible power costs based upon a formula. That formula is 95 percent of the electricity rates between a floor of 12 cents and a ceiling of 52.5 cents. The floor itself is determined by a formula that is the greater of either 12 cents, or the current weighted average residential rates of Anchorage, Fairbanks and Juneau. The current floor for FY09 is 12.83 cents per KWH. Costs below the floor of 12.83 cents or above the ceiling of 52.5 cents per KWH are not eligible for reimbursement by PCE. The current maximum PCE level based upon these limits is 37.69 cents per KWH. There are currently 41 communities that are at that maximum level, and many more will reach the maximum as utilities make their fall fuel purchases at much higher prices. There are approximately 180 communities in the program, and although she doesn't have the exact number, she expects the number of communities reaching the maximum PCE reimbursement level to double this fiscal year if the formula remains the same. The RCA provides the AEA that base rate calculation annually. The FY09 calculation is based on the utilities' 2007 annual reports, which are calendar year reports. FY08 was the first year the urban weighted average of the floor exceeded 12 cents per KWH. She provided a chart showing the base rate escalation occurring over the past seven years (copy on file.) In 2008, the rate was 12.87 cents and in 2009, 12.83 cents. The table also shows the base rate calculations derived from the weighted average of the five utilities that service Anchorage, Fairbanks and Juneau.

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Ms. Fisher-Goad noted that many questions have come up recently regarding how the PCE floor would be impacted after AEL&P in Juneau dramatically raised their rates this spring on a temporary emergency basis after losing their transmission lines to an avalanche. She explained that two relevant factors minimizing that impact are that the rates are weighted so that AEL&P represents only approximately 13 percent of that calculation, and that the calculations are based on a calendar year with a lag time, not affecting the PCE floor until FY10.

Ms. Fisher-Goad reviewed the program eligibility requirements. An eligible residential customer may receive credit up to the first 500 KWH consumed each month. She handed out a table (on p. 2 of *Alaska Energy Authority PCE Program Overview*; copy attached) to give a sample of residential rates and the associated PCE rates that apply. For example, Lime Village and Chuathbaluk are both at the maximum PCE level, but their effective rates - what they are paying after the PCE credits - are different. This chart assumes that residents are at the 500 KWH per month maximum; if they exceed that level they would be paying the higher pre-PCE rate for all additional KWH.

[9:25:57 AM](#)

Representative Gara inquired whether there are any communities where heating relies primarily on electricity, so that PCE subsidies are being used to provide heat.

Ms. Fisher-Goad did not know the answer, but speculated that there may be some communities in Southeast Alaska that are hydropower based and use electricity for heating. Even in Juneau where electric rates are low, only about 20% of the residents use electricity as their primary heat source. Heating oil is still cheaper than electricity in most communities.

[9:27:24 AM](#)

Ms. Fisher-Goad pointed out that in addition to individuals and utilities, the program does include community facilities, with their reimbursement cap set at 70 KWH per month multiplied by the community population. Examples are washeterias, water pump stations, street lights, community centers, city and tribal council offices, and clinics. In FY07, there were about 22 communities reaching the KWH maximum for community facilities. State, federal, commercial and school facilities are not eligible for PCE credit. About one-third of the KWH used in rural communities is eligible, while these institutional customers representing the other two-thirds are not eligible.

Ms. Fisher-Goad addressed the PCE Endowment Fund, which was created and endowed in FY01 from the proceeds of the Constitutional Budget Reserve and the Four-Dam Pool project sale proceeds. The fund is managed by the Department of Revenue for the Alaska Energy Authority. Its assets are invested with the objective of earning at least seven percent over the long term. In FY07 the legislature made a supplemental appropriation of \$182 million to the fund. She referenced the table included on page 3 of the *PCE Program Overview* handout showing performance of the fund on an annual basis. For FY10 the three-year monthly average market value calculation projects a seven percent return, or approximately \$21 million. The three-year monthly average market value of the fund is currently \$300 million.

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Representative Joule asked for confirmation of his understanding that eligible community facilities usually include clinics, because he has heard that some clinics have been excluded from the PCE program.

Ms. Fisher-Goad explained that, in order to be eligible according to statutes, a clinic's operating costs must not

to be paid by state, federal or private sources. A clinic's eligibility depends on who owns the clinic and the source of its funding.

Representative Joule asked for a list of the clinics included in the program. Ms. Fisher-Goad offered to find and provide that information.

[9:31:39 AM](#)

Representative Gara asked for clarification on how the PCE funds are distributed to its three classes of beneficiaries: residential customers, community facilities and utilities.

Ms. Fisher-Goad replied that utilities provide information on their pre-PCE rates to the RCA, which then sets their PCE rates. Utilities know on a monthly basis how much electricity their customers have used and are to be billed for. When the utilities send their bills out to the residential customers, those customers know how much they are paying out of their own pockets and how much the PCE is subsidizing on their behalf. Utilities send the aggregate data each month to the AEA, which then reimburses the utilities based on the level established by the RCA. There are two full-time staff at the AEA who work with the utilities to make those calculations for reimbursements. The PCE payments are not advanced funding but, rather reimbursements of the payments already made by the utilities.

Representative Gara clarified that all PCE reimbursement money goes straight to the utilities in a regulated fashion through the RCA.

[9:34:28 AM](#)

Representative Thomas asked whether the Four-Dam Pool communities are currently eligible for the PCE program. Ms. Fisher-Goad replied that they were not.

Representative Thomas noted that the legislature had added \$182 million to the PCE program in 2006 or 2007, without realizing that the funds would be split 50/50 between fuel expenses and non-fuel expenses. He asked whether the RCA had increased their non-fuel overhead expenses because more money was put into the fund, since they already had overhead costs fully funded before this increase.

Ms. Fisher-Goad responded that RCA could best address that question. She clarified that PCE endowment capitalization provides a funding source but, is independent of the calculation for power costs, which include the components of fuel and non-fuel expenses. She noted that the RCA could

provide further information on how they are calculating those costs.

[9:36:16 AM](#)

Representative Thomas mentioned that he had called Senator Al Adams after learning that 50 percent of the PCE funds were to be directed to non-fuel costs, and Senator Adams had expressed surprise that not all the funds were going to fuel costs but, were available for overhead as well. Representative Thomas voiced concern that the additional endowment monies, increasing from \$9 million to \$28 million, had accidentally resulted in increasing the overhead of the program because of the 50/50 split.

Ms. Fisher-Goad commented that the endowment fund functions as a steady funding source for the PCE and has no impact on how the PCE fuel and non-fuel rates are set. The primary factor that affects PCE rates are increases in fuel costs. Overall, the fuel costs are rapidly rising and increasingly comprise a greater percentage of the PCE calculation than in the past, when oil was at \$7 a barrel and diesel cost about \$1 per gallon in rural communities. Fuel costs were then rather small compared with other components of a utility's expenses. She stressed that the capitalization of the endowment did not affect calculations of the costs of the program.

[9:38:46 AM](#)

Representative Kelly wondered which years the two predecessor programs to the PCE program were initiated.

Ms. Fisher-Goad responded that she believed one started in 1980 and was a one-year program and the other probably began the following year and was a five-year program. She will get the exact information from the Regulatory Commission of Alaska and provide it to the Committee later.

[9:40:46 AM](#)

JAY LIVEY, STAFF, SENATOR LYMAN HOFFMAN, expressed his intention to talk about why HB 4005 was introduced, go through the bill, and explain the three major changes to the PCE program included in the bill. Many Alaskans are expressing concern that fuel costs are rising and may soon escalate up to \$10 per gallon in rural communities. The purpose of this bill is to provide some equitability in the price of electricity around the state and provide relief to Alaskans for the high price of their fuel. This particular legislation addresses the electricity component of energy costs, and another bill will address the heating component. The first major change included in this bill will allow more Alaskans to participate in the PCE program by changing the

definition of an eligible utility. This legislation would use 120 percent of the weighted mean costs of energy in Anchorage, Fairbanks and Juneau as the floor and pay any costs above that level. The rates would no longer be linked to what kind of power the utility produced in 1984 or the percentage produced by oil. The second major change is an increase in the maximum rate for the PCE. Currently the maximum rate is 52 cents per KWH, but many consumers will exceed that maximum rate this coming winter. This bill would raise the maximum rate to \$2 per gallon, which should provide a cushion if fuel prices continue to increase.

[9:43:30 AM](#)

Representative Gara asked for clarification of the 52 cents per KWH rate limit, since the handout notes 37 cents as the maximum subsidy.

Mr. Livey responded that 37 cents represents the maximum qualifying electricity rate of 52 cents - more accurately, 52.5 cents - minus the floor rate of 12 cents that is subsidized by PCE. By current statute, the portion of the individual's rate below 12 cents and above 52.5 cents does not qualify for subsidy by the state, but this bill would raise the cap to two dollars. There was additional discussion between Representative Gara and Mr. Livey to clarify this formula.

[9:45:48 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, referred to Figure 1 of the handout, *Discussion of HB4005 - Power Cost Equalization* (copy attached), showing the customer cost of electricity. The horizontal line across the bottom of the graph represents the amount above which the PCE kicks in (.1283 per KWH, representing the weighted average costs in Anchorage, Fairbanks and Juneau). The PCE subsidizes 95 percent of the electricity costs above this floor but, below the ceiling of 52.5 cents per KWH. Consumers pay 100 percent of the costs above the ceiling of 52.5 cents per KWH.

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Mr. Teal pointed to Figure 2 of the handout showing customer costs compared with the subsidy amounts. He cited the example of rates in Wainwright compared with those in Lime Village. Customer costs escalate rapidly as electricity rates exceed the 52.5 cents per KWH PCE ceiling. Right now, there are 41 utilities with electricity costs above 52.5 cents per KWH. As fuel is delivered this summer to the rural communities and electricity rates are established for the coming winter, expectations are that power costs will rise about 50 percent throughout rural Alaska. When that happens,

there will be an estimated 148 rural utilities above the ceiling of the 161 utilities in the program. As higher rates kick in this winter, the costs to the customers will accelerate rapidly. The rural costs will typically be much higher than urban rates with the average utility rate about 65 cents and the customer rate about 30 cents, even for the first 500 KWH qualifying for individual resident reimbursement. Above the first 500 KWH, the customer will pay the full costs of that power.

[9:51:13 AM](#)

Representative Gara asked what is projected for the rates rural residents will have to pay if PCE is changed under the proposed legislation versus if it is not.

Mr. Teal answered by giving an example from a table, comparing a current typical cost in Cordova of \$134, which is projected to rise to \$199(copy on file.) These figures will be different for every utility and every community. They are also dependent on what happens to fuel prices.

Representative Gara asked for clarification of the percentage changed.

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Mr. Teal referenced the handout, Figure 3. In that chart, all factors are constant except for fuel costs, which are projected at various increased rates. He used a specific example to show how he derived the projected costs of the program and the impact on consumers.

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Mr. Livey reiterated that the bill would raise the PCE ceiling from 52.5 cents to \$2, providing greatly expanded relief for rate payers. However, the current maximum of 500 KWH per month for reimbursement of each eligible residential customer does not necessarily fit the pattern of how energy is actually used in rural areas. The new legislation would change that limit to 700 KWH per month in the six winter months and 300 KWH per month in the summer months. The customer is still allowed an annual subsidy of 6,000 KWH, but, the distribution would be more closely aligned with most rural Alaskan lifestyles.

Mr. Livey added that the current PCE program allows community facilities to receive subsidies. Examples of eligible facilities include street lights, dump stations and washeterias. The sponsor has proposed that eligibility of community facilities be limited to those in communities no larger than 10,000 people.

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Representative Thomas noted that he didn't see any incentives to get off the diesel power generation and onto renewable energy in this bill. He recommended that language be inserted in this legislation to create incentives for that switch. He has been involved this past regular session in HB 152 (Renewable Energy Projects). He is concerned that villages are continuing to pay high costs for diesel and would like to see those villages that are able to switch, do so.

Mr. Livey agreed, adding that there are other mechanisms for the utilities to receive funding for developing alternative energy sources. He noted that that the primary purpose of this bill is to serve as an energy relief act. He foresees growing problems over the next few years with the cost of energy for people heating with oil, but he doesn't regard this legislation as the final determination on legislative energy policy. Utilities need to switch off of diesel fuel, but those changes will take time. Other solutions are likely to be proposed over the next few years.

Representative Thomas commented that this is intended to be an energy special session. He wanted to see language incorporated in the legislation being considered here to encourage state residents to get off diesel. It could be as much as ten years from the inception of a new energy project to its coming on line. The largest hurdle is getting permits from the government agencies. We need to tell the agencies that we can't wait ten years for their decisions, but need them to process the permits in a matter of a few months.

[10:00:06 AM](#)

Co-Chair Meyer inquired what the average KWH usage is for a residence in rural Alaska.

Mr. Livey replied that the average is around 390 KWH per month, but he did not know how usage varied from that average between summer and winter months.

Co-Chair Meyer asked for the total cost of the fiscal notes for this bill, incorporating the proposed major program changes.

Mr. Teal replied that the estimated total cost is approximately \$90 million. The current FY09 funding level is \$28 million, but the anticipated costs are closer to \$33 million. Co-Chair Meyer pointed out that the projected costs are almost three times the current rate.

[10:02:02 AM](#)

Representative Joule inquired what the average KWH use is in rural areas, and in the Anchorage/Mat-Su area. Mr. Teal replied that the state average is 700 KWH per month and the national average is approximately the 750 KWH.

Representative Joule mentioned that the Power Cost Equalization Program's cap is effectively putting a cap on how "equal" state residents will be.

Co-Chair Meyer said he assumed that most of the homes in rural Alaska don't have big energy-consuming appliances, such as washers, dryers, refrigerators and the like. Representative Joule responded that rural Alaska has come a long way, and the use of freezers in particular is widespread, consuming a lot of electricity in the summer months. Flat screen TV's are also common. However, people are getting really conscious of energy use. He has found himself pulling plugs out of the receptacles, just because he knew his personal usage was very high, about 1,200 KWH per month when all five of his children were home. He still pays about \$250 per month, in Kotzebue.

Co-Chair Meyer followed up saying he was under the impression that smaller villages frequently have community-centered laundry facilities. Representative Joule agreed.

[10:05:24 AM](#)

Representative Kelly noted that utilities are facing a dramatic increase in cost as the price of diesel rises. He asked whether AEA had tried to address this problem by capturing the rate of increase, moving up the curve on the cost graph, because the averages used for the program are lagging the increase in current energy costs.

Mr. Teal answered that they had not changed the timing on the computation of the base.

Representative Kelly further asked what would happen if the dramatic increase were recognized, since the steepness of the curve and the lag time is a widely recognized problem.

Mr. Teal did not think the curve would be changed significantly because it is based on prices in Anchorage, where natural gas costs have not risen very fast, and Juneau, where hydropower costs have been relatively stable. According to Ms. Fisher-Goad's computations, the urban base actually fell in 2009 from 12.87 cents last year to 12.83. Even back when oil was cheap in 2003 and 2004, the base was about 11 cents. The urban base is not affected nearly so much as the cost of fuel in PCE communities when the price of oil goes up.

[10:08:06 AM](#)

Representative Gara stated he needed to understand better how much it costs to heat homes in rural areas. He had heard earlier this year from Representative Edgmon that he typically spent \$2,000 per month to heat in Dillingham, which flabbergasted him. He wondered how much typical costs for heating rural homes would be if the support programs are not changed this year, assuming \$9 a gallon diesel costs, compared with the typical costs if the program is changed by the legislature as proposed. The discussion will be more realistic if the Committee can gain a better understanding of conditions in the rural communities.

Mr. Teal answered that the PCE doesn't address the heating costs. There will be another bill considered tomorrow that will address heating costs, and at that time the typical costs of both heating and electricity use can be addressed.

Representative Gara clarified that he meant to ask about electricity costs, not heating costs.

Co-Chair Meyer noted that the subject today is primarily electrical costs, tomorrow will be primarily heating, and then on Sunday the two will be combined for public testimony.

[10:10:16 AM](#)

Representative Thomas related his commercial fishing experience this year having to buy extra fuel to run his fish into Juneau, where he could get 25 cents per pound more because of lower energy costs for freezing, instead of selling them in Hoonah, where the costs are significantly higher, and it's even worse in some other communities such as Pelican. The impacts of higher energy are not only residential, but also affect the businesses such as fish processors in rural Alaska.

Co-Chair Meyer asked to what degree wind power was helping to bring down electricity costs in villages such as Kotzebue.

MEER KOHLER, PRESIDENT CEO, ALASKA VILLAGE ELECTRIC COOPERATIVE, in the audience, responded that AVC now includes six villages that use wind power to generate electricity.

Representative Hawker asked what the rationale was for excluding from the proposed legislation all communities with a population greater than 10,000.

Mr. Livey answered that the cost of the program has several components. One of the components of the increase in cost is that new utilities and their customers are now eligible.

Some of those additional individuals are living in large communities which already have a large tax base, revenue sharing, or some other means of providing for common facilities.

Representative Hawker asked which communities would be affected by this.

Mr. Livey said his understanding was that the largest community to qualify would be Fairbanks.

Representative Hawker asked for clarification that the Power Cost Equalization program would now include Fairbanks, which was not included up to this point.

Mr. Livey confirmed that was the case and explained that the base is now calculated at about 15 cents per KWH, while Fairbanks power costs approximately 18 or 19 cents. PCE now also includes Kodiak utilities and Golden Valley, which were not included before, but whose power costs are above the 15 cent limit. The program is now basing eligibility not on geography or what kind of power was generated in 1983, but on price.

Representative Hawker asked if historic criteria had been eliminated. Mr. Livey confirmed that was the case.

[10:14:28 AM](#)

Mr. Teal added that it was important to make the distinction that the 10,000 population limit only affects the eligibility of community facilities, while the individuals in the community will be eligible for PCE assistance. Adding Fairbanks would, for example, add \$13 to \$14 million to benefit individuals; adding community facilities would cost another \$5 to \$6 million. It is a cost-containment measure to disqualify the larger communities, and Fairbanks may be the only community to be affected.

Representative Hawker wondered what Mayor Whitaker of Fairbanks thought about that restriction, while noting this was only Version A of the legislation under consideration. He went on to ask what the consequences would be of eliminating the exclusion of the former initial project beneficiaries from the statute, in other words which communities would be added to the program by ending the exclusion.

Mr. Teal answered that the provision affects mainly the Four-Dam Pool communities., but their power costs are currently still too low under the current formula, meaning that they would not be added to the program anyway, so there is no current consequence., but because their costs are

close, it is possible if urban power costs went down that they could be eligible in the future.

Representative Hawker asked for statistics on the communities' eligibility instead of anecdotal evidence.

Co-Chair Meyer asked how many additional households would qualify under the proposed legislation that would include Fairbanks in the program.

Mr. Teal answered that there are approximately 25,000 households in the PCE right now. Opening it up to Fairbanks, Kodiak and Copper Valley would nearly double the number of households in the program.

Co-Chair Meyer noted that was part of the reason the cost of the program would nearly triple from \$30 million to \$90 million. Mr. Teal confirmed that was the case.

[10:17:58 AM](#)

Representative Hawker said it would be very helpful and informative for the Committee to have a list itemizing the consequences of this legislation to various communities around the state.

Co-Chair Meyer said his understanding was that Fairbanks and the other utilities to be added to the program now qualified because their electricity price exceeded 15 cents per KWH.

Mr. Livey confirmed that any electric utility customers in any community with electricity prices over 15 cents would become eligible.

Mr. Teal said that there is a cost model available that shows what power costs are now and how each community is paid under PCE currently, as well as how they would be paid under the proposed legislation. He would be happy to show each Committee member that data individually or as a whole in a later meeting.

Co-Chair Meyer noted that the wind power in Kotzebue will displace \$450,000 to \$500,000 worth of fuel this year. The goal next year is to supply ten percent of the electricity from wind and in five years to supply 20 percent. It appears that alternative energy is being developed in the form of wind power in Northwest Alaska and other parts of the state, as well as hydro power in Southeast Alaska.

[10:20:31 AM](#)

Representative Gara pointed out that if you subsidize inefficiency, you just always remain inefficient. If you subsidize something that's very high cost, you end up not

saving money over the long term. If you subsidize diesel, you just stay on diesel. He is sympathetic to the idea of helping people over the short term, but there needs to be a provision in this bill that encourages communities which are subsidized to get off of diesel. He wants to see language that would encourage communities to turn to renewable energy. Without that, why would a community apply for funds from the Renewable Energy Fund for projects that might generate electricity costing more per KWH than subsidized diesel? There are policy ramifications of not carefully crafting the bill. He offered an example of requiring a community in the program to switch to 50 percent alternative energy power generation within seven years, though he noted that this specific example would be unworkable because different communities have different potential for developing alternative energy resources. He requested a discussion to include language in this bill to offer short-term assistance, but at the same time encourage communities to get off diesel over the longer term.

Mr. Teal responded that while Representative Gara's points were valid, this bill has some incentives in it, because of the ceiling of 500 KWH per month that qualifies for subsidy. The consumer must pay full cost for any power consumed in excess of that. It is very common to break the ceiling. The incentive to conserve and hold down costs is built into the fact that people do break the limit. There are further incentives for schools and businesses, which are not eligible and have strong incentive to hold their power costs down. There could be more incentives built into the bill, but that was not the purpose of the bill when it was drafted.

Representative Gara stated that those incentives are not sufficient and there needs to be greater incentives to get off of diesel and switch to wind power or other sources of alternative energy. While the included incentives are helpful, there is much more that should be included. He reiterated his request that, instead of saying this is good enough, some language should be formulated for this bill to make it better.

[10:24:31 AM](#)

Representative Joule differentiated between the immediate need for relief this winter, and the longer-term issue brought up by Representative Gara, which was addressed during the last session by passing HB152 and will be addressed further in an additional bill to be introduced soon. Those are two different conversations. While he agrees with the effort to solve the longer-term issues, this bill is addressing the immediate issues. Mr. Hawkinson is the state energy specialist who has been devoting full time to figuring out what the renewable energy resources in Alaska

are. All of the pieces of the puzzle concerning renewable energy will come together in the regular session, but this session is dealing with an immediate issue.

Co-Chair Chenault agreed that the legislature is addressing the short-term fix today. From his conversations with the Administration, he is confident that they are working on a proposal to tackle the long-term energy issues facing the state, for introduction in the next regular session.

[10:27:03 AM](#)

Representative Thomas asked if there was a plan to put more money into the Endowment to cover rising fuel costs, which appears to require about \$800 million. The price of oil is creeping downward recently and there may be less money to pay for this if oil settles at \$90 per billion.

Mr. Teal answered that AEA would be creating a fiscal note to add to the bill. The funding will probably come through an appropriations bill adding \$700 million to fund the Endowment at this proposed level. An additional \$250 million will be needed to cover the period from the present until the Endowment payout starts covering the costs, because there is a four-year lag in the Endowment payout. In total, about \$1 billion will be required to fund this program in perpetuity. This funding would be added to the approximately \$400 million already in the Endowment.

Representative Thomas asked follow up questions, pointing out there was a loss this year of \$18 million, or 4.6 percent. This loss contrasted with earnings the previous year of \$44 million. For several years the legislature dug into the corpus of the Endowment, and now they are faced with doing that again. He wanted to make sure that there was sufficient funding because he felt that this would be their only shot at putting the program on stable footing.

Mr. Teal said that if the program is not fully funded, the PCE program would be in the same situation it was in the past five years, where payments were pro-rated, and the legislature had to debate what level of funding was appropriate each year.

[10:30:00 AM](#)

Representative Hawker asked for an explanation of the retroactivity provisions in the bill and their consequences.

Mr. Teal responded that retroactivity was too complicated to include. The RCA might be better equipped to respond.

Representative Kelly noted that he was more attracted to a program that would work through the utilities to encourage

change of behavior rather than merely handing out checks. The 500 KWH limit in the current program has been a powerful suppressor of waste in the villages. He wants there always to be provisions that keep the consumers on edge, aware of their energy use. It is too easy for subsidies to get embedded into the system and then continue to have harmful impacts over the succeeding years. Inflationary impacts also tend to wash through the economic system and have an effect on behavior, and the legislature needs to make sure it doesn't remove the incentives that result. He also wants to take advantage of this period of temporary wealth in Alaska to build roads to the rural areas, which do more to create permanent healthy, vibrant economies than any other thing the legislature can do. The subsidy programs can quickly kill any opportunities to tackle more significant projects.

[10:34:40 AM](#)

Representative Joule addressed the differences between the urban and rural concerns in the PCE program. An interior representative or senator changed the program several years ago to whittle down the upper limit. Until high energy prices impacted the urban areas, those legislators were not very sympathetic to the problems the rural consumers were facing. He wished more of the residents of the state could undergo the kinds of experiences that Juneau has had recently and Fairbanks is now having to help everyone gain an appreciation of what really is needed in high-cost communities over both the short term and the long term, rather than evaluate the proposals on only a cost basis.

[10:37:28 AM](#)

DENNIS WHEELER, ADVISORY SECTION MANAGER, REGULATORY COMMISSION OF ALASKA, testified via teleconference. He addressed the Committee on making some minor changes to the bill. First, he anticipated that the legislature would be disappointed in the language currently in the bill that addresses retroactivity, because the RCA would not be able to meet the timelines set out there. He would like to see implementation scheduled for October, which would give them time to prepare to address the requirements and proposed changes. Secondly, he noted that the RCA has a shortage of bean counters to carry out all the tasks that have been assigned to it by the PCE. As last year's task force concluded, the RCA does not currently have the resources to meet the requirements of the PCE program as currently on the books, much less if it were modified to add more utilities. As the program is modified, there are additional associated administrative burdens, and they are being felt most acutely in his section. He added that the bill addresses some of the concerns regarding incentives for alternative energy and efficiency. Currently there are regulations requiring that the utilities meet line loss and efficiency standards

revised in 2005, or else the shortfall is imputed and deducted from the PCE subsidy paid. That feature doesn't provide incentives to get off of diesel, but it does cause the utilities to try to be efficient.

[10:42:00 AM](#)

Co-Chair Meyer noted that there were some questions for Mr. Wheeler. If there are points that don't get addressed during the questioning, the Committee would like to hear Mr. Wheeler's comments before the conclusion of this hearing.

Representative Hawker asked for assistance understanding the mechanics of how the current program is operated, and specifically what period of time the data is taken from to calculate the subsidies and how long those calculated rates apply to the communities.

Mr. Wheeler responded that it varies depending on the type of filings that the utilities deliver for the PCE program. For example, in purchasing fuel under the program managing fuel costs, some utilities will submit filings annually, some quarterly, and some monthly. There is a full-time person to help the approximately 70 non-regulated utilities manage those filings. In addition, the utilities are required to file annual reports to be audited by the RCA to make sure their costs are reasonable and appropriate. Further, the approximately 19 regulated utilities are required to file additional updates, and there is a whole host of other filings that must be submitted. In some cases, the filings consist of projections of anticipated costs, while others are for reimbursements based on actual costs.

[10:46:01 AM](#)

Representative Hawker asked whether the RCA adjusts the PCE reimbursement rate of each utility every time its fuel price changes.

After Mr. Wheeler confirmed that was the case, Representative Hawker followed up by asking how long a delay was usual in issuing the new subsidy calculations.

Mr. Wheeler explained that for non-regulated utilities, assuming their filing is complete and up to date, it normally takes two weeks to make the rate changes from the time of incurring the expense.

[10:47:07 AM](#)

MARY VITTON, UTILITY TARIFF ANALYST, REGULATORY COMMISSION OF ALASKA, who testified via teleconference, said that the 19 regulated utilities are on a 45-day clock, processed under regular tariff filings.

Mr. Hawker concluded that the rate changes are reasonably contemporaneous. He wondered what the most frequent rate change schedule was.

Mr. Wheeler responded that St. Paul generally applies twice a month, while most others do it monthly or less frequently.

Representative Hawker remarked that for St. Paul, the reimbursements generally lagged by about one rate change. He congratulated the tariff section for their competent work.

[10:48:55 AM](#)

Representative Thomas wanted to see copies of the RCA's annual reports and see what is allowed to be written off as deductions. He asked how the RCA had originally come up with the 50/50 division for fuel and non-fuel costs.

Mr. Wheeler noted that there was no statutory or regulatory provision that mandates that split, but thought it might have represented the approximate status at the time the program was established.

Ms. Vittone clarified how non-fuel costs are figured into the PCE reimbursements. For regulated utilities, this is done through a revenue requirement or a rate case proceeding, via the energy rate charged on the bill. For non-regulated utilities, the non-fuel costs are taken from the annual reports submitted by the utilities, and these include general administrative expenses, operating expenses, depreciation, personnel and interest. She did not know what split between fuel and non-fuel costs Representative Thomas was referring to.

[10:51:45 AM](#)

Representative Thomas explained that he had been told that 50 percent of the funding went to cover fuel costs and the other 50 percent covered non-fuel expenses, and that RCA had made that determination at one time. He was wondering when that split had been decided upon.

Ms. Vittone didn't know the answer, but speculated that it was when the program was initiated. Currently that split does not apply.

Representative Thomas asked what the split is currently.

Ms. Vittone noted that split would vary between utilities. Picking one example, the Village of Alutiiq's reimbursements are based on non-fuel costs of \$48,000 and fuel costs of \$54,000. To cite another example, the City of Golovin's non-fuel costs were \$410,000 and their fuel costs were \$236,000.

Representative Thomas requested ten random utility annual reports so he could get an idea of what is allowed for deductions.

[10:53:35 AM](#)

Vice-Chair Stoltze stated that the Committee goes through the same discussion of administrative costs for every department. It would be good to establish a benchmark for what they are trying to achieve in administrative expenses, even though exemptions are commonly granted due to extenuating circumstances. He asked if lobbying were allowed as an allowable non-fuel expense.

Mr. Wheeler stated that lobbying was not eligible as a reimbursable expense.

Vice-Chair Stoltze continued, asking about consulting, contract work, or any other similar activities that might resemble lobbying.

Mr. Wheeler noted that one of the purposes of their reviewing the utility filings is to look for what should be excluded, such as lobbying, grant funding and the like. The goal is to make sure eligible expenses are aimed at useable power generation.

[10:55:45 AM](#)

Representative Hawker referred to statute 42.45.110 to cite the premise for the PCE program: "...all allowable costs except for return on equity used by the RCA to determine revenue requirement..." With that as context, he is really interested in statute 42.45.130, Cost Minimization: "In order to qualify, every electric utility shall make every reasonable effort to minimize administrative, operating and overhead costs, using the best available technology consistent with sound utility management practices. In reviewing applications for power cost equalization, the commission may require the elimination of unnecessary operating expenses." He asked whether the Regulatory Commission of Alaska had identified any unnecessary operating expenses in their current calculations.

Mr. Wheeler responded that it depends on the specific utility, and the RCA employs standard accounting principles to determine what should or should not fall within allowable expenses. He offered to pull together some specific examples from the past.

Representative Hawker paraphrased his conclusions that the RCA is relying on the underlying statutory authority to approve all allowable costs except for return on equity.

Mr. Wheeler listed a few items that are excluded.

Representative Hawker followed up to point out that there appeared to be no discussions about requiring the utilities to minimize operating costs. It sounds as though the RCA is not going through the due diligence extra step of paring down operating costs that the legislature has asked them to do. He would feel more comfortable if they would place more emphasis on that procedure.

[10:58:49 AM](#)

Mr. Wheeler noted that public utility regulation has its own set of rules regarding allowable rates. GAAP accounting standards weren't the only approach used to evaluate the requests for PCE reimbursements. There is a whole body of decisions nationwide and within Alaska that serve as guidelines.

[11:00:39 AM](#)

Representative Joule asked whether all the PCE-eligible utilities are passing their subsidized savings on to the consumers. There are certain types of paperwork that have to be filed by utilities. Are there utilities that are eligible for PCE subsidies, but are not doing the paperwork and are therefore not receiving the benefits of the program?

Mr. Wheeler answered that there are roughly 25 percent of the 70 non-regulated utilities that are not in compliance with the paperwork filing requirements and therefore are not eligible for reimbursement by PCE. That does not mean that the utilities are not passing the PCE rate reductions on to the customers, but only that they are not eligible for reimbursement. The utilities are required to itemize the PCE benefit on their bills, and apparently all are doing that. However, there are many utilities that are in suspension because they are not meeting the reporting requirements.

Representative Joule recalled one instance where the customers were not receiving the PCE benefits and wondered if that is currently occurring. He asked what could be done to rectify situations where that problem does occur and to provide the residents relief on their bills.

Mr. Wheeler is not aware of any utilities that are not passing the subsidies on to their customers. The AEA might have better information, but it would certainly be something that the RCA would want to know about.

Representative Hawker asked how utilities are staying in business if they're billing their customers for power costs

net of the PCE, but are not actually receiving the subsidy because they're out of compliance.

Mr. Wheeler responded that that was a very good question.

[11:03:56 AM](#)

Representative Gara remarked that there was concern expressed earlier that utilities generating power from wind would not be eligible for PCE subsidies. For example, a community with diesel costs of \$1.50 per KWH might switch to wind which would cost \$.60 per KWH; would it be disqualified from the program? He wanted to make sure the program was not creating a situation where wind is excluded and therefore utilities are encouraged not to shift over to wind energy.

Ms. Vittone cited the example of Kotzebue where wind power is eligible for PCE subsidies. She noted that eligibility for wind power reimbursement is based on line losses and efficiency standards.

Representative Gara asked whether there is any disincentive in the PCE program to shifting to wind power, or can any alternative energy power source also qualify for PCE funding.

Ms. Vittone replied that it all comes down to how the credit is calculated and what costs are included in that calculation.

Representative Gara followed up by inquiring whether it was fair to say that there is no disincentive to switching to alternative energy.

Ms. Vittone confirmed that it was.

[11:06:25 AM](#)

Representative Gara remarked that there is going to be some disincentive for utilities to go off of diesel because diesel is being subsidized. The impact may be that a community decides it doesn't have to bother applying for a grant to install wind power. How much of a concern is that?

Mr. Wheeler responded that it was difficult for the RCA to address that problem.

Representative Gara said he understood that issue was outside the mandate of the RCA, but he would appreciate hearing any ideas on how to come up with an incentive for utilities to switch while not threatening their qualification for PCE.

Vice-Chair Stoltze said that he was uncomfortable that the customers and not the utilities might be penalized. He used the example of Chugach Electric or MLP being forced into alternative energy production that would not be beneficial financially for his constituents.

Mr. Wheeler responded that he would let Mary Vittone address that issue.

Ms. Vittone explained that all costs associated with production of power are evaluated through a rate proceeding. Capital equipment expenditures are put into the rate base, in a revenue requirement or cost of service study. Electricity is subsidized, not fuel, and all of the components of the electricity costs are eligible for inclusion. For example, the high cost of renewable power generation such as wind or hydro would qualify, but as a part of the non-fuel cost, or rate base. There is a difference between regulated and non-regulated utilities in the level of review that is carried out on the rate-base portion of the rates. There are two different rates: the base rate that is the fixed cost of offering the power, and the incremental cost of producing each additional KWH of power. Together they comprise the total rate, and PCE reimbursements are based on that total cost of electricity.

[11:11:42 AM](#)

Vice-Chair Stoltze redirected his question to Bob Pickett.

BOB PICKETT, CHAIRMAN, REGULATORY COMMISSION OF ALASKA, testified via teleconference that Ms. Vittone had addressed the question. He expanded on the answer by saying that the typically higher capital costs of alternative energy power generating equipment would be included in the rate base. He realizes that there is a lot of movement currently in the state's overall energy policy, and he is carefully monitoring that.

Vice-Chair Stoltze will follow up the conversation with Mr. Pickett.

Representative Thomas asked whether rates could come down if utility debts are retired through the capital budget. Copper Valley had some experience with debt retirement and that might shed light on the question.

Mr. Wheeler noted that Copper Valley is not economically regulated and therefore would not make a good example.

[11:13:43 AM](#)

Representative Thomas has at least one utility in his district that has several million dollars of debt due to

overruns in construction. How many utilities are in the same circumstance? Retiring the debt would be a good use of the capital budget funds directed at those districts, instead of constructing new auditoriums, municipal buildings or schools.

Representative Hawker readdressed the disincentive issue brought up earlier by Representative Gara. Looking at aggregate costs in the current PCE program, if 52.5 cents is exceeded the utility gets no benefit for that portion. There is a motive for them to drop the costs to that 52.5 cent level, but there is no more incentive to drop it lower than that level because the state is paying that portion. Under the proposal in front of the Committee, that level is raised to \$2.00, a level chosen to encompass the electricity costs of all utilities everywhere in the state. Therefore the incentive to reduce costs is being eliminated for every utility in Alaska. This bill is directed at short-term relief, but the Committee needs to weigh that objective against the problems posed by removing the incentives to conserve.

[11:17:55 AM](#)

Co-Chair Meyer agreed.

Representative Joule asked whether the same entities would be back later for further questions.

Co-Chair Meyer said they would sometime, but was not sure when.

Representative Gara asked the RCA how equitable it would be to pay down debt, because he doesn't know how much debt different utilities around the state were carrying., but he surmised that ratepayers would save money on their electricity bills if debt were reduced.

Mr. Wheeler affirmed that notion.

Representative Gara asked whether the RCA can come up with information on which utilities have debt and how much each has.

Mr. Wheeler said the RCA is already working on that list in response to a request from another legislator. One caveat is that because some utilities are not economically regulated, they are under no obligation to report any of their financial data to the RCA. There are others that have not filed their reports yet. Therefore there will be some holes in the data.

Representative Gara requested that the list be submitted to Co-Chair Meyer, for distribution to the Committee. He asked

whether the RCA had any information that might help the legislature tackle debt reduction equitably in the various communities.

Mr. Wheeler said he didn't know how to address or even define equitability.

Representative Gara asked if the information from the RCA would include the debt loads of each community to enable the legislature to look at what their needs are.

[11:21:18 AM](#)

Mr. Wheeler confirmed that the list will show debt load as of the latest report filing, plus interest on that debt.

Co-Chair Chenault has talked to some utilities regarding their debt and various utilities have different types. The concern would be whether paying off the debt will encourage them to turn around and increase it again, possibly at a higher rate which would increase their costs.

[11:22:36 AM](#)

Representative Joule asked what the impact to the rate payer would be of paying down the debt.

Representative Hawker noted that the floor is currently 120 percent of the weighted average retail residential rates in Anchorage, Fairbanks and Juneau over the previous calendar year. There may be some problems besides equitability in paying down individual utilities' debts, such as some that cannot legally be prepaid., but if the cost floor were driven down for urban utilities, in contrast, then all communities would benefit from increased PCE payments at the lower floor level.

Representative Gara said one benefit of paying down the debt would be that it would not be taxable by the federal government. In contrast, sending out a \$1,200 resource rebate check to each citizen would result in a quarter to a third of the payments going directly to the federal government. He has some heartache over spending \$800 million and watching a third of that go straight to the Feds.

Representative Hawker complimented Representative Gara on his conservative commentary.

Representative Gara noted that it was actually compassionate liberalism.

[11:25:38 AM](#)

Ms. Fisher-Goad had some follow-up comments on some of the questions. What are the FY09 costs of the program? Part of the appropriation bill for the special session is a \$9 supplemental PCE appropriation for costs they expect to see this year. Added to the \$28 million already appropriated for FY09, the total for FY09 would be \$37 million. She has been coordinating with Mr. Teal on determining what the impacts of these changes would be, making sure they are using the same assumptions and qualifications. There were questions about which communities would now be eligible: there are likely 24 new communities and four new utilities that serve those communities (Golden Valley, Copper Valley, Kodiak and Homer). Copper Valley shifts seasonally to hydropower, when they are not eligible because of low rates, but they are eligible during the winter. Projected costs are \$15 to \$20 million for the new utilities that would be eligible under PCE, plus \$70 to \$93 million for the new ratepayers. Part of the fiscal note total depends on the behavior that is stimulated by the proposed seasonal split for summer and winter KWH caps. There will also be increased administrative costs to cover the additional residential rate payers that would be eligible, tripling the program from the current 23,000.

[11:28:49 AM](#)

Ms. Fisher-Goad pointed out that the program covers residences only up to a certain number of KWH per month and only a segment of utilities, so that there is still an incentive for businesses, schools and utilities to lower their fuel costs, no matter what the legislature decides to do about setting a ceiling for PCE.

Utilities that are not receiving PCE subsidies may not be billing their customers or they may not be providing the paperwork to the RCA, in spite of the generous timeline for reporting by August 31 for the preceding fiscal year. Concerning debt reduction, interest payments are one part and depreciation is another of the debt of the utilities. Her understanding is that just the interest portion would be subject to rate reduction, while the depreciation would stay on the books. She will be available for questions and will get a fiscal note as soon as possible.

[11:31:53 AM](#)

Co-Chair Meyer clarified that this bill includes only residential rate payers plus a few community centers that are eligible.

Ms. Fisher-Goad noted that PCE is limited primarily to unincorporated rural communities, with the 10,000 ratepayer limit. If the legislature wants to put that limit in place, it would essentially just cut Fairbanks and the North Star

Borough out of the program, while other urban communities such as Valdez would qualify. The definition of community eligibility needs to reflect the legislature's intentions on who is included.

Co-Chair Meyer asked whether Ms. Fisher-Goad thought businesses should be included, though that would make the cost of the program skyrocket. Businesses with high fuel costs are just going to pass those costs along to consumers, who will ultimately be paying the costs anyway.

Ms. Fisher-Goad said the RCA doesn't have a position on who should be included. Up until 2000, commercial customers were included, but there was controversy over that provision. However, it was a minimal credit that didn't have much impact on a large company's finances.

[11:34:21 AM](#)

Representative Hawker said that as the RCA builds its models for the fiscal note, he would like to have them build in consideration of the rate floor. Why would Fairbanks be included in the base since their costs are so high that they should be included in the program? He suggested a weighted average of all the utilities in the state that are not qualifying for the program, although that definition may be too circular. Perhaps the six lowest cost communities in the state should constitute the floor, or some similar definition, with the goal of eliminating from the floor calculation any community that will be benefiting from PCE subsidies.

Ms. Fisher-Goad said she had been discussing this issue recently and would try to come up with a solution soon. She noted that reference to Fairbanks in the base rate referred only to the city and not to the North Star Borough.

Representative Hawker summarized that he was looking for a better standard to define the base and asked the RCA to come up with suggestions.

[11:37:34 AM](#)

Representative Kelly noted that in this special session the Committee isn't being charged with completely revamping the program, but should address the current high costs to consumers. He wanted to keep some sensitivity to the 52.5 cent limit that is a tremendous incentive to conserve. The proposed \$2.00 limit creates real problems by removing that incentive to stay efficient. The change from 500 KWH to a 300/700 KWH split limit summer versus winter, even though the annual calculation is unchanged, will also remove incentives during the winter months. There may be unintended consequences to changing many of the elements of the program

without having the time during special session to analyze them thoroughly. The PCE program would still be covering only about one third of the total KWH costs.

[11:41:21 AM](#)

Representative Kelly asked whether there is any loading toward the unsubsidized portion of any of the non-fuel costs.

Ms. Fisher-Goad responded that there is not, and Ms. Meer Kohler, in the audience, confirmed that answer. Ms. Fisher-Goad noted that only 30 percent of the commercial KWH are eligible, and if Golden Valley is brought into the program, that percentage will decrease because the utility serves some very large businesses.

Representative Gara asked whether the Committee would hear from Mr. Hawkinson regarding the possibility of putting additional money into the Renewable Energy Fund, not to be spent until there are really worthy applications for it, which the legislature will ultimately be able to review. He also noted that the issue of staffing at AEA needs to be addressed, now that there will be a hugely expanded program loaded onto it.

Co-Chair Meyer said they are trying to stay focused on the immediate crisis and these other longer-term issues will be addressed in the regular session.

Representative Gara said that while the Governor had called the special session to address the short-term crisis, his constituents will be angry if the special session doesn't address long-term solutions.

[11:44:42 AM](#)

Representative Joule was concerned about the definition of summer vs. winter rates, since April 1 is still winter in some parts of Alaska. He would like to get more data on usage patterns and what time frames for the switch would be most useful. Also, in regard to the discussion on businesses qualifying for PCE, there is a difference between the huge companies and the mom-and-pop stores in the villages, which have to pass along to their customers the high transportation energy costs integrated into their cost of goods sold.

Co-Chair Meyer concluded the discussion of PCE for today. Tomorrow the Committee will take up LIHEAP. Saturday will address the resource rebate in the morning and take public testimony in the afternoon. Sunday will combine public testimony on PCE and LIHEAP. Monday will address suspension of the eight percent fuel tax. He is open to taking up other

meetings, presenters and topics when time allows, but for now his priority is to get through the bills targeted by the special session.

Representative Thomas wants to talk more about the PCE and how it affects people. After hearing so much already on the \$1,200 rebate, he suggested moving that bill out of Committee and onto the House floor.

HB 4005 was HEARD and HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 11:47 AM.