

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ENERGY**

May 4, 2023

9:47 a.m.

**MEMBERS PRESENT**

Representative George Rauscher, Chair (via teleconference)  
Representative Tom McKay, Vice Chair  
Representative Stanley Wright  
Representative Mike Prax  
Representative Calvin Schrage  
Representative Ashley Carrick

**MEMBERS ABSENT**

Representative Josiah Patkotak

**COMMITTEE CALENDAR**

PRESENTATION: POWER COST EQUALIZATION

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

BECKI ALVEY, Acting Advisory Section Manager  
Tariffs Section Supervisor  
Regulatory Commission of Alaska  
Department of Commerce, Community, and Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "The Regulatory Commission and Power Cost Equalization."

KEITH KURBER, Chairman  
Regulatory Commission of Alaska  
Department of Commerce, Community, and Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing.

CURTIS THAYER, Executive Director  
Alaska Energy Authority  
Department of Commerce, Community, and Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "Power Cost Equalization."

ZACHARY HANNA, Chief State Investment Officer  
Treasury Division  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "Power Cost Equalization Fund Investment Summary."

**ACTION NARRATIVE**

[10:16:35 AM](#)

**VICE CHAIR TOM MCKAY** called the House Special Committee on Energy meeting to order at 10:15 a.m. Representatives Schrage, Rauscher, McKay, Prax, and Wright were present at the call to order. Representative Carrick arrived as the meeting was in progress.

PRESENTATION: POWER COST EQUALIZATION

**PRESENTATION: POWER COST EQUEALIZATION**

[10:18:25 AM](#)

VICE CHAIR MCKAY announced that the only order of business would be a presentation on power cost equalization.

[10:19:34 AM](#)

BECKI ALVEY, Acting Advisory Section Manager, Tariffs Section Supervisor, Regulatory Commission of Alaska, Department of Commerce, Community, and Economic Development, gave a PowerPoint presentation, titled "The Regulatory Commission and Power Cost Equalization" [hard copy included in the committee packet]. She began on slide 2 through slide 5 giving a brief overview of Power Cost Equalization (PCE) and the Regulatory Commission of Alaska (RCA). She stated that PCE is an effort to equalize power costs per kilowatt hour (kWh) statewide to the average cost per kWh of Anchorage, Fairbanks, and Juneau. The role of RCA is to calculate the base rate for PCE, calculate PCE amounts for each eligible utility, and determine which utilities are eligible. She said that the base rate for PCE is adjusted annually on July 1st, and its minimum rate is 12 cents per kWh. The RCA compares the utility reports from Anchorage, Fairbanks, and Juneau to the sales and costs of other utilities and determines the base rate by putting together a weighted average.

[10:22:12 AM](#)

MS. ALVEY continued to slide 6 through slide 10, displaying tables with information on sales, costs, base rate calculations, and historical PCE base rates. She said that a weighted average is the cost per kWh multiplied by the percentage of the utilities' residential sales. The total cost of the weighted average from Chugach Electric Association, Alaska Electric Light and Power, Golden Valley Electric Association, and Matanuska Electric Association is used for the final weighted average. She stated that from 2001 until 2007, the PCE base rate increased from the minimum of 12 cents per kWh to 20.36 cents per kWh. In creating the PCE calculation for a utility, she said, the following are factored in: non-fuel costs, fuel costs, the PCE base rate, and the adjustments for not meeting generation efficiency. She clarified that non-fuel costs include all allowable costs other than return on the equity used by RCA to determine the revenue requirement for each regulated utility.

[10:25:36 AM](#)

REPRESENTATIVE PRAX asked whether RCA regulates costs and investments for the Railbelt utilities.

[10:26:48 AM](#)

KEITH KURBER, Chairman, Regulatory Commission of Alaska, Department of Commerce, Community, and Economic Development, answered no; however, he explained that the plans the Railbelt utilities present and enact are regulated by RCA.

REPRESENTATIVE PRAX asked whether RCA has the authority to reject investments in a type of energy generation because of the potential increase in cost to the ratepayers.

MR. KURBER responded no; furthermore, he added that a new agency, the Electric Reliability Organization, would likely handle questions such as this in the future.

[10:31:31 AM](#)

MS. ALVEY moved to slide 11 and slide 12 and stated that fuel costs include the cost of diesel fuel and must be supported by invoices. She explained that nonregulated utilities are adjusted with fuel reports, and regulated utilities are adjusted

with the cost of power adjustment or the fuel cost rate adjustment. She said that generation efficiency is measured by the number of kWhs generated compared to the number of gallons of fuel consumed, and the standard is based on the size of the utility and kWh generation amount. If the standard is not met, the fuel cost is calculated as if the standard were met after reducing the number of gallons reported. She stated that line loss is measured as kWh generated minus kWh sold, plus the station service divided by kWh, and the minimum standard is 12 percent.

[10:34:04 AM](#)

REPRESENTATIVE PRAX asked whether the standards are set by statute or regulation.

MS. ALVEY answered that current statutes allow RCA to create regulations, and it sets the standard. In response to a follow-up question, she said that RCA has given the utilities a chance to give input into the regulations.

[10:36:58 AM](#)

MS. ALVEY continued to slide 13 and stated that eligible utilities are defined by AS 42.45.150(3), which also includes the definition for ineligible utilities. She stated that RCA certifies electric utilities and collects reporting information from utilities which benefit from PCE. It can recommend that PCE disbursements be suspended for any utility which fails to comply with these reporting requirements.

[10:40:03 AM](#)

CURTIS THAYER, Executive Director, Alaska Energy Authority, Department of Commerce, Community, and Economic Development, gave a PowerPoint presentation, titled "Power Cost Equalization" [hard copy included in the committee packet]. He began on slide 2 through slide 5, giving a brief overview of the Alaska Energy Authority (AEA) and PCE. He stated that AEA is involved in Railbelt energy, PCE, rural energy, renewable energy, energy efficiency, grants and loans for energy projects, and energy planning. Established in 1985, he said, the PCE program is an effort to equalize the high cost of energy in rural Alaska. Eligible customers include residential and community facilities, while state and federal facilities, commercial energy consumers, and communities whose rates are lower than the PCE floor are excluded.

[10:42:53 AM](#)

MR. THAYER. continued to slide 6 and slide 7 and stated that AEA and RCA work together to administer the PCE program. He said that 193 rural communities, 91 electric utilities, and 82,000 Alaskans benefit from PCE. The PCE endowment fund was created in 2001 to give the fund a source of capital gains, and it is managed by the Department of Revenue. He said that residential customers are eligible to receive PCE credit for up to 750 kWhs a month, and public facilities are eligible for credit up to 70 kWhs multiplied by the number of residents in a community. He pointed out that in 2022, \$27.4 million was disbursed by the PCE fund. He stated that the current value of the fund is \$978.8 million. He explained that the PCE fund uses a three-year average to determine the market value appropriate for the fund.

[10:46:17 AM](#)

REPRESENTATIVE PRAX asked whether PCE should use a 5-year average as opposed to the 3-year average.

MR. THAYER answered that this has been discussed, and the decision is against the 3-year average.

[10:48:25 AM](#)

MR. THAYER continued to slide 8 and slide 9, displaying a chart with the history of the PCE endowment and the PCE endowment earnings. He stated that the fund has earned money in four of the previous five years through capital investment and has outflows such as administrative costs and management fees. In 2021, the fund earned approximately \$150 million, of which the first \$40 million went toward PCE, and \$30 million went toward community assistance. He said that, depending on the level of the fund, up to \$25 million could be spent on projects such as powerhouse upgrades or the renewable energy fund. He added that the fund has only earned enough money to pay for these upgrades on two occasions, of which 2021 was one.

[10:51:49 AM](#)

MR. THAYER continued to slide 10 and slide 11, giving an overview of PCE terminology. He reiterated the definition of the base rate and the effective rate. He stated that the PCE ceiling is the maximum amount paid per kWh, which is \$1. The PCE effective rate is the rate charged by the utility minus the

PCE level, and the PCE level is the state reimbursement per kWh for each community based on eligible and noneligible fuel costs. He stated that AEA puts out an annual report on PCE, which is available online. He said that in 2021, the PCE fund was ruled to not be subject to the sweep provision in the Alaska State Constitution, as PCE was found to be a separate fund outside of the state's general fund. The significance of this is that the fund is no longer a part of the legislative budgeting process; therefore, the uncertainty for rural Alaska and AEA is removed.

[10:56:11 AM](#)

REPRESENTATIVE CARRICK asked why there are more active projects in Southwest Alaska than the North Slope Borough.

MR. THAYER answered that there are more communities in Southwest Alaska.

[10:58:51 AM](#)

CHAIR RAUSCHER asked how ratepayers receive their reimbursements.

MR. THAYER answered that checks are issued to utilities or communities monthly. He added that communities have up to three months to submit their expenses to AEA for reimbursement.

[11:01:06 AM](#)

REPRESENTATIVE PRAX asked how the court ruling affected AEA's ability to regulate.

MR. THAYER answered that it has made regulation easier for AEA. in response to a follow-up question, he said that money available for additional projects would depend on the capital gains of the fund.

REPRESENTATIVE PRAX questioned whether the legislature should work to make the fund's earnings less volatile.

MR. THAYER expressed the opinion that this is worth considering, although the fund was not designed to be the main source of funds for a project. In response to a follow-up question, he reiterated that the maximum amount of money which can be contributed towards new projects is \$25 million. He added that the Department of Revenue would have a better understanding of

how to manage the investments to potentially allow for more project funding.

[11:08:47 AM](#)

CHAIR RAUSCHER asked whether decreased prices on the Railbelt from the use of renewable energy would affect rural communities.

MR. THAYER expressed uncertainty whether enacting RPS would affect PCE. In response to a follow-up question, he said that PCE reimbursement would increase if Railbelt prices increased.

CHAIR RAUSCHER asked how PCE would be affected if prices were to increase to over a dollar.

MR. THAYER answered that rural Alaska would be negatively affected. In response to a follow-up question, he said that PCE will always be paid out, but to different amounts based on the costs for urban Alaskan communities.

[11:15:18 AM](#)

REPRESENTATIVE PRAX asked whether cheaper prices and less PCE payouts means more money would be available for capital investments.

MR. THAYER answered that the PCE fund is not designed to pay for capital projects. In response to a follow-up question, he said that significant capital gains in the endowment fund would be necessary for large-scale capital project funding.

[11:18:50 AM](#)

ZACHARY HANNA, Chief State Investment Officer, Treasury Division, Department of Revenue, gave a PowerPoint presentation, titled "Power Cost Equalization Fund Investment Summary" [hard copy included in the committee packet]. He began on slide 2 through 4, stating that the Treasury Division manages approximately \$49 billion in assets for Alaska, including \$9 billion for the PCE fund. The division creates an investment plan for each fund it manages on an annual basis. He said that PCE investment policy is based in statute, and it is designed to maximize the total return of the fund, with a high-risk tolerance. The fund has an investment of approximately 70 percent in equity and 30 percent in bonds. He said that the expected return of the fund is 6.83 percent and 4.33 percent when accounting for inflation.

[11:22:11 AM](#)

MR. HANNA continued to slide 5 and slide 6, stating that stock and bond performances were both low in 2022. Losses in 2022 mostly occurred in the first half of the year, with the second half of 2022 showing some recovery for investments. He said that the PCE fund has seen growth of 6.3 percent since the start of fiscal year 2023, and the long-term performance has been strong despite 2022 being a down year. The growth of PCE assets and investments have met or exceeded expectations and provided modest excess returns.

[11:25:40 AM](#)

MR. HANNA moved to slide 7, giving a brief overview of the history of PCE cashflow. He reiterated that the fund has performed well despite losses in 2022, and the fund has a 6.8 percent total return, exceeding the expected return of 4.3 percent. Prior to 2022, the average return was 9.2 percent. He stated that over the long term, the fund will continue to be able to provide the reimbursement it was created to provide.

[11:28:35 AM](#)

REPRESENTATIVE PRAX asked how the expected performance of the fund was determined.

MR. HANNA answered that the benchmark is based on average industry standards for such funds. In response to a follow-up question, he said that the excess funds are enough to cover administrative costs.

[11:30:34 AM](#)

MR. HANNA continued to slide 8, stating that the Department of Revenue has a comprehensive and transparent process for the implementation of investment policies. He stated that PCE's asset allocation is designed to maximize total return while considering inflation, and the results of the fund long term are expected to continue to meet or exceed expectations.

[11:32:00 AM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 11:32 a.m.