

HB

216

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 10, 1993

FURTHER REFERRALS:

Date of Committee Action: 4/8/93

The FINANCE Committee considered:

HB 216

HOUSE BILL NO. 216

POWER COST EQUALIZATION

"An Act relating to power cost equalization; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 216 (Fin) the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal impact _____

fiscal note(s) _____

zero fiscal note HFC

zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Eileen P. McKeown</i> ^{FRAGLEMAN}	✓	<i>Richard J. Foster</i>		✓	X
<i>Ronald J. Hanley</i> ^{LARSON}	X	<i>Gene Therrault</i>			X
<i>Mike Hanley</i> ^{Hanley}	✓	<i>Larry Martin</i> ^{Martin}		✓	
<i>Sean P. Paul</i> ^{Paul}	✓				

Ronald J. Hanley *Eileen P. McKeown*
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act relating to PCE;
and providing for an effective date.
 Sponsor: House Finance Committee
 Requestor: House Finance Committee

Dept. Affected: Commerce and Economic
Development
 BRU: Alaska Energy Authority
 Components: Power Cost Equalization
Grants

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE						
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FUNDING: (THOUSANDS OF DOLLARS)

General Fund						
Federal Fund						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Prepared By: Rep. Ron Larson, Co-Chair *Ron Larson* 465-3878
Rep. Eileen MacLean, Co-Chair Phone: 465-4833
 Division: House Finance Committee *E MacLean* Date: 4/8/93

Approved By: _____ Date: _____
 Agency: _____

8-LS0010X
Cramer
4/6/93

CS FOR HOUSE BILL NO. 216()

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to power cost equalization; and providing for an effective date."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 44.83.162(c) is amended to read:

4 (c) An eligible electric utility is entitled to receive power cost equalization for

5 (1) sales of power to local community facilities, calculated in the
6 aggregate for each community served by the electric utility, for actual consumption of
7 not more than 70 kilowatt-hours per month for each resident of the community; and

8 (2) actual consumption of not more than ⁷⁰⁰650 [750] kilowatt-hours per
9 month sold to each customer in all classes served by the electric utility except to
10 customers of the utility under (1) of this subsection and customers that are federal
11 offices or federal facilities other than public schools.

12 * Sec. 2. AS 44.83.162(d) is amended to read:

13 (d) The amount of power cost equalization provided per kilowatt-hour under
14 (c) of this section may not exceed 95 percent of the power costs, or the average rate

+
original
lang +

1 per eligible kilowatt-hour sold, whichever is less, as determined by the commission.
2 However,

3 (1) during the state fiscal year that begins July 1, 1993, [1984] the
4 power ~~(costs for)~~ which power cost equalization may be paid to an electric utility are
5 limited to minimum power costs of more than 9.82 [8.5] cents per kilowatt-hour and
6 less than 52.5 cents per kilowatt-hour;

7 (2) during each following state fiscal year, the power ^{RATE ABOVE} ~~(costs for)~~ which
8 power cost equalization may be paid to an electric utility shall be adjusted by the
9 commission, ^{COST PER KILOWATT HOUR FOR CONSUMERS} based on the weighted average retail residential rate in Anchorage,
10 Fairbanks, and Juneau [CONSIDERING THE RATE OF CHANGE IN FUEL COST
11 AND POWER DEMAND]; and

12 (3) the power cost equalization per kilowatt-hour may be determined
13 for a utility without historical kilowatt-hour sales data by using kilowatt hours
14 generated.

15 * Sec. 3. AS 44.83.162(e) is amended to read:

16 (e) An electric utility whose customers receive power cost equalization under
17 this section shall set out in its tariff the rates without the power cost equalization and
18 the amount of power cost equalization per kilowatt-hour sold. The rate charged to the
19 customer shall be the difference between the two amounts. Power cost equalization
20 paid under this section shall be used to reduce the cost of all power sold to local
21 community facilities, in the aggregate, to the extent of 70 kilowatt-hours per month per
22 resident of the community, and to reduce the cost of the first ⁺⁰⁰ 650 [750] kilowatt-hours
23 per customer per month for all other classes served by the electric utility except
24 federal offices and ^{state or} federal facilities other than public schools.

25 * Sec. 4. This Act takes effect July 1, 1993.

NO change
FAKAL

original
language

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. HB 216

Revision Date: _____
 Title: An Act relating to Power Cost Equalization; and providing
for an effective date.
 Sponsor: The House Finance Committee
 Requestor: _____

Department Affected: Commerce and Economic Development
 BRU: Alaska Energy Authority
 Component: Power Cost Equalization Grants
 COMPONENT SERIAL NO. 965

EXPENDITURES/REVENUES:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	600.0	624.0	649.0	674.9	701.9	730.0
MISCELLANEOUS						
TOTAL OPERATING	600.0	624.0	649.0	674.9	701.9	730.0

CAPITAL						
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REVENUE FUND SOURCE:						
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FUNDING:

1002 Federal Receipts						
1003 GF Match						
1004 GF	600.0	624.0	649.0	674.9	701.9	730.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
OTHER						
TOTAL	600.0	624.0	649.0	674.9	701.9	730.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY 93) impact: None

ANALYSIS: (Attach a separate page if necessary.)
 See Attached

Prepared by: Gloria Manni, Director, Accounting and Administration
 Division: Alaska Energy Authority

Phone: 561-7877
 Date: 3/16/93

Approved by Commissioner: Paul Fuhs
 Agency: Commerce and Economic Development

Date: _____

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FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. HB 216

ANALYSIS: (continued)

The intent of HB 216 is to cut the costs of the PCE program effective July 1, 1993. However, the FY 94 PCE Grants budget request submitted to the Alaska Energy Authority, as approved by the Board of Directors in the amount of \$17,920,000, assumes the implementation of the above legislative changes, plus the exclusion of school facilities from PCE credit. Enactment of HB 216 would result either in an increase of the PCE Grants budget request in FY 94 and following years, or if the increased cost is not funded in a *pro rata* reduction of PCE rates for all customers to accommodate the unbudgeted requirement for school facilities.

Back-up

HB 216: "An Act relating to power cost equalization; and providing for an effective date."

The bill includes the following provisions:

1. Excludes state or federal offices and facilities from the Power Cost Equalization (PCE) program.
2. Increases the minimum power cost for which PCE may be paid to an electrical utility (floor) from 8.5 cents/kwh to 9.5 cents/kwh.

The Alaska Energy Authority supports the proposed legislation; however, it would prefer the enactment of more comprehensive legislation (see below SB 124 section).

Program Background

Power Cost Equalization (PCE) is a formula program that reduces the consumers' cost of electricity generated and sold by eligible electric utilities in rural Alaska. The program attempts to provide for statewide equalization of power cost per kilowatt-hour (kwh) at a cost close to the average kwh/cost in Anchorage, Fairbanks, and Juneau.

During FY's 92 and 93, the limited funding of the program has made it necessary to reduce, on a pro rata basis, PCE rates to all participating utilities customers, 20% and 10%, respectively, impacting residential customers the most as the cost of electricity, especially in the communities with low per capita income.

Analysis

Sections 1 and 3 of the bill propose to make state and federal facilities ineligible for PCE effective July 1, 1993. This change is expected to decrease program costs about \$1 million. Conversely, state offices/facilities in rural communities eligible for PCE would incur, on average, increased electrical cost of about \$1,350 per year. This estimate assumes that each state budgetary unit would be eligible for the maximum 750kwh each month of the year at the PCE average rate of 15 cents/kwh. Federal offices and facilities would experience similar cost increases. No significant impact is expected on the affected customers or local economies.

Section 2 of the bill proposes to increase the minimum power cost for which PCE may be paid to an electric utility (floor) from 8.5 cents/kwh to 9.5 cents/kwh effective July 1, 1993. This program change would bring the minimum cost of electricity in rural Alaska closer to the cost of electricity in the urban areas of state, and it would decrease program costs an additional \$1 million. Our best estimate assumes that once the state and federal facilities are removed from the program, about 100,000 megawatt-hours will

continue to be eligible for PCE annually. If the PCE floor is increased to 9.5 cents/kwh, as an average, residential customers would incur increased costs of about \$45 per year; commercial customers about \$52 per year; and community facilities \$165 per year.

The proposed change in Section 2 to increase the PCE floor to 9.5 cents/kwh may require legislative action in future years to maintain the statutory relationship between the PCE floor and the average kwh/cost in Anchorage, Fairbanks, and Juneau as the cost of power in these urban communities continues to grow. During CY 1990 and 1991, the weighted average electric residential rate for urban electrical customers with consumption of 500 kwh/mo. was 9.6 cents/kwh and 9.8 cents/kwh, respectively.

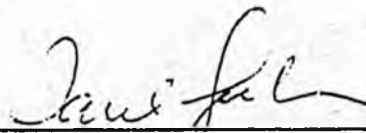
Other Related Legislation/SB 124

Senate Bill 124, Sections 11, 12 and 13 reflect the PCE program legislative changes that would match the Alaska Energy Authority FY 94 budget request for PCE grants by excluding from the program federal, state, and school facilities.

It would also provide for a formula to administratively adjust the PCE floor in future years "by an amount equal to the percentage change in the Consumer Price Index, All Urban Consumers, U.S. City Average, published by the U.S. Department of Labor for the 12-month period ending April 30 of the fiscal year preceding the fiscal year for which the adjustment is being made."

SB 124 was introduced by the Senate Rules Committee by request of the Governor on February 19, 1993. If passed, the bill would financially restructure the Alaska Energy Authority. Such plan, among other things, would generate a \$17 million annuity for 20 years to assure reasonable power costs to residential customers in rural areas through PCE or more efficient energy project.

The concept of a PCE program directed mostly to residential customers, combined with a long-term, financially stable and foreseeable program funding reinforces the Alaska Energy Authority's support of SB 124.



Paul Fuhs, Commissioner

3/16/93

Date

retraced



State of Alaska
Walter J. Hickel, Governor

Alaska Energy Authority

A Public Corporation

March 10, 1993

The Honorable Eileen MacLean
Alaska State Representative
Co-Chair House Finance Committee
State Capitol
Juneau, Alaska 99801-1182

Subject: FY94 Operating Budget Request/Power Cost Equalization Grants

Dear Representative MacLean:

I am pleased to provide the following information on the Power Cost Equalization (PCE) program, in response to your request letter dated March 9, 1993.

- The updated FY94 budget estimate as of today for the full funding of the PCE program is presented below. However, due to the numerous factors affecting use of electricity and the eligible cost of each utility participating to the program, it is difficult to closely project what would be the actual program demand; limited upward or downward adjustments may continue to occur.

FY94 Preliminary Grant Budget Projects as of 3/10/93*

FY93 Participating Utilities Requirement of 100%	\$20,204,077
Increased FY94 Rates/Power Sales of	
FY93 Participating Utilities	404,082
New Participating Utilities	50,000
APUC Regulatory Cost Charges	<u>80,000</u>
FY94 PCE Grant Requirements	<u>\$20,738,159</u>

Estimated Savings (subject to passage of proposed legislation):

Federal, State offices	\$ 1,000,000
Schools	566,516
Increase floor to 9.5 cents**	<u>1,000,000</u>
FY94 Revised Grant Requirements	<u>\$18,171,643 (a)</u>

Less: FY94 PCE Grant Budget Request	<u>\$17,920,000</u>
Potential FY94 Shortfall	<u>(\$251,643)</u>

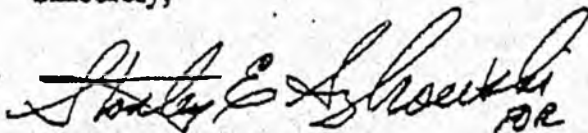
Letter to: Representative Eileen MacLean
Subject: FY94 Operating Budget Request/PCE Grants
March 10, 1993

- * Based on FY92 actual program requirements plus budget amounts for those utilities with pending disbursements.
- ** Savings related to residential, commercial customers, and community facilities. It assumes that Federal, State offices and Schools are eliminated from the program.
- o Our best estimate of cost savings due to the removal of state and federal facilities from the program, is about \$1 million. The cost of the schools continued participation in the program is about \$570,000, as presented in the above schedule.
- o Based on the FY91 PCE program statistics report, issued December 1992, the average monthly consumption of residential and commercial customers eligible for PCE is 374 kwh/mo. Community facilities are excluded from this computation.
- o Based on the FY91 PCE program statistics, the average monthly consumption of residential customers eligible for PCE is 367 kwh/mo.
- o If the PCE "floor" is increased to 9.5 cents, the electrical customers, as an average, will incur additional costs as follows:

<u>Customers</u>	<u>Average Consumption</u>	<u>Cost Increase 1¢/kwh</u>	
		<u>Monthlv</u>	<u>Annual</u>
Residential	367 kwh/mth	\$3.67	\$44.04
Commercial	430 kwh/mth	\$4.30	\$51.6

I appreciate your interest and your support of this program that is essential to insure economic viability of local rural electric utilities. Please call my office at 561-7877 if you have any questions or need additional information.

Sincerely,



Ronald A. Garzini
Executive Director

GM:RAG:tlj