

HB

336

CITY OF CORDOVA, ALASKA

RESOLUTION 02-98-11

**A RESOLUTION IN SUPPORT OF HOUSE BILL 337 AND THE CONCEPT
OF HOUSE BILL 336 OF THE 20th LEGISLATURE, SECOND SESSION**

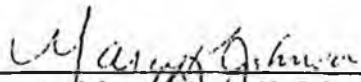
WHEREAS, Cordova Electric Cooperative, Inc. is constructing the Power Creek Hydroelectric Facility to lower the cost of power in Cordova; and

WHEREAS, Cordova Electric Cooperative, Inc. is willing to relinquish PCE funding in exchange for a State grant in the amount of \$7.5 million; and

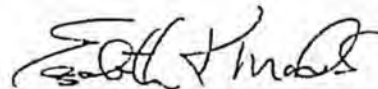
WHEREAS, Cordova Electric Cooperative, Inc. has secured financing for the remainder of the total project cost which is estimated at \$15 million,

NOW, THEREFORE, BE IT RESOLVED that the City of Cordova, Alaska, supports the Board of Directors of Cordova Electric Cooperative in urging passage of House Bill 337 and supports companion legislation which would preclude Cordova Electric Cooperative from future eligibility for Power Cost Equalization funding, if Cordova Electric Cooperative receives a State Grant in the amount of \$7.5 million for the Power Creek Hydroelectric Facility.

PASSED AND APPROVED THIS 11th DAY OF FEBRUARY, 1998.



Mayor Margy K. Johnson



Clerk Elizabeth Manfred

CS FOR HOUSE BILL NO. 336()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTIETH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES KUBINA, Kott

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to eligibility for power cost equalization."**

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

3 *** Section 1. AS 42.45 is amended by adding a new section to read:**

4 **Sec. 42.45.145. Ineligibility for power cost equalization after certain**
5 **construction.** An electric utility that is otherwise determined to be an eligible electric
6 utility under AS 42.45.150 becomes ineligible to receive power cost equalization on
7 the day that is six months after the day on which an electric generation facility
8 described in this section first provides electricity to customers served by the electric
9 utility. An electric utility loses its eligibility under AS 42.45.100 - 42.45.150 if, on
10 or after January 1, 1998, it constructs a hydroelectric generation facility, or other
11 electric generation facility that is not powered by diesel fuel, for which a grant from
12 the state pays at least half the cost of construction and that is designed to supply more
13 than 75 percent of the total electrical load of that utility.

14 *** Sec. 2. AS 42.45.150(2) is amended to read:**

15 (2) "eligible electric utility" or "electric utility" means a public,

1 cooperative, or other corporation, company, individual, or association of individuals,
2 and includes the lessees, trustees, or receivers appointed by a court, that has not
3 become ineligible under AS 42.45.145 and that

4 (A) owns, operates, manages, or controls a plant or system for
5 the furnishing, by generation, transmission, or distribution, of electric service
6 to the public for compensation;

7 (B) during calendar year 1983, had a residential consumption
8 level of power eligible for power cost equalization under former AS 44.83 of
9 less than 7,500 megawatt hours or had a residential consumption level of power
10 eligible for power cost equalization under former AS 44.83 of less than 15,000
11 megawatt hours if the utility served two or more municipalities or
12 unincorporated communities; and

13 (C) during calendar year 1984, used diesel fired generators to
14 produce more than 75 percent of the electrical consumption of the utility; an
15 electric utility that is a subsidiary of another electric utility is an "eligible
16 electric utility" if the operations of the subsidiary, considered separately, meet
17 the eligibility requirements of AS 42.45.100 - 42.45.150; if an electric utility
18 did not receive power cost assistance in 1983 but is otherwise eligible for
19 power cost equalization under AS 42.45.100 - 42.45.150, the utility is an
20 "eligible electric utility";

MEMORANDUM

Date: 2/13/98
To: Tom
From: Kevin Jardell
Re: HB 336 Power Cost Equalization Eligibility

Page 1 Line 12 insert after "that", "has the ability to supply"

OR

Page 1 Line 12 insert after "that", "is designed to supply"

The first suggestion would eliminate those entities that might run the facility at lower than full power to go under 75%.

The second suggestion could be harsher but would place a higher burden on the utility to do its homework in the design. If they design it to produce 75% and it doesn't meet that expectation they still lose their PCE. It would ensure a wise use of the grant money.

Perhaps add a new section that states: A utility that is ineligible under AS 42.45.145 may not become eligible in the future due to fluctuations in its electrical load needs.

WORK DRAFT

WORK DRAFT

WORK DRAFT

0-LS1132F
Cramer
2/12/98

Rup Kubina
Att: Tom

CS FOR HOUSE BILL NO. 336()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTIETH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES KUBINA, Kott

A BILL

FOR AN ACT ENTITLED

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10 **or after January 1, 1998, it constructs a hydroelectric generation facility, or other**
11 **electric generation facility that is not powered by diesel fuel, for which a grant from**
12 **the state pays at least half the cost of construction and that supplies more than 75**
13 **percent of the total electrical load of that utility.**

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15 (2) **"eligible electric utility" or "electric utility" means a public,**

WORK DRAFT

WORK DRAFT

0-LS1132AF

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cooperative, or other corporation, company, individual, or association of individuals,
and includes the lessees, trustees, or receivers appointed by a court, that has not
become ineligible under AS 42.45.145 and that

(A) owns, operates, manages, or controls a plant or system for
the furnishing, by generation, transmission, or distribution, of electric service
to the public for compensation;

(B) during calendar year 1983, had a residential consumption
level of power eligible for power cost equalization under former AS 44.83 of
less than 7,500 megawatt hours or had a residential consumption level of power
eligible for power cost equalization under former AS 44.83 of less than 15,000
megawatt hours if the utility served two or more municipalities or
unincorporated communities; and

(C) during calendar year 1984, used diesel fired generators to
produce more than 75 percent of the electrical consumption of the utility; an
electric utility that is a subsidiary of another electric utility is an "eligible
electric utility" if the operations of the subsidiary, considered separately, meet
the eligibility requirements of AS 42.45.100 - 42.45.150; if an electric utility
did not receive power cost assistance in 1983 but is otherwise eligible for
power cost equalization under AS 42.45.100 - 42.45.150, the utility is an
"eligible electric utility";

Alaska State Legislature

Committees

Labor & Commerce
Legislative Council
World Trade
Trade & Tourism
Special Committee
on Fisheries



Representative Eugene Kubina
House Minority Leader

During Session:
Alaska State Capitol
Juneau, Alaska 99801-1182

During Interim:
P.O. Box 2463
Valdez, Alaska 99686

Sponsor Statement

During the '80s, the state of Alaska developed a two-pronged approach to developing affordable electric power throughout Alaska: hydroelectric plants and interties for the Railbelt communities, and Power Cost Equalization (PCE) for the smaller, rural towns and villages.

The result was dramatic. The Railbelt communities, including Anchorage, the Kenai, and the Mat-Su, saw their electrical rates drop as hydroelectric projects came on line and interties connected the various communities within cost effective electric grids. In rural Alaska, the PCE program was created to reduce electrical energy costs for the smaller communities by subsidizing rates.

However, just as the state of Alaska is determined to wean as many of its people as possible off state and federally funded social programs, so too is there a need for the state to look for ways to replace the Power Cost Equalization (PCE) Program as a financial supplement to high electrical costs in our rural communities.

H.B. 336 proposes such a program. In exchange for grant funds to upgrade current electrical generation systems (through new technologies and improvement), communities would relinquish PCE payments. The incentive is twofold:

- 1) PCE has a questionable future; and
- 2) Improved technologies could feasibly reduce electrical costs to the subsidized level.

H.B. 336 seeks to ultimately reduce the state budget while assisting rural communities in finding more cost-effective ways to produce needed electrical energy. It is a program and a concept that speaks to the future

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO: CS HB 336

Revision Date: _____ Dept. Affected: Community & Regional Affairs
 Title: An Act relating to eligibility for power cost BRU: Rural Energy Programs
equalization Component: Energy Operations
 Sponsor: Representative Kubina Power Cost Equalization
 Requestor: House CRA COMPONENT SERIAL NO. 1965

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

| OPERATING | FY 99 | FY 00 | FY 01 | FY 02 | FY 03 | FY 04 |
|-------------------|-------|---------|---------|---------|---------|---------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS CLAIMS | | (347.1) | (708.0) | (722.2) | (735.6) | (751.4) |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | | | | | |

| | | | | | | |
|----------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
|----------------------|--|--|--|--|--|--|

| | | | | | | |
|--|--|--|--|--|--|--|
| CHANGE IN REVENUES () Revenue Code | | | | | | |
|--|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|--------------------------|--|---------|---------|---------|---------|---------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | (347.1) | (708.0) | (722.2) | (735.6) | (751.4) |
| 1005 GF/Program Receipts | | | | | | |
| 1006 GF/MHTIA | | | | | | |
| Other | | | | | | |
| TOTAL | | | | | | |

Estimate of current year (FY 98) impact: \$ -0-

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS: CS HB 336 is associated with a companion bill (CS HB 337) which would provide for an appropriation for the construction of a hydroelectric project in Cordova. If the proposed companion bills are passed, the annual demand on the General Fund for Power Cost Equalization (PCE) will decrease effective January 2000 (six months after the completion of the Power Creek Hydroelectric project), as Cordova Electric Cooperative would no longer participate in the PCE program. The proposed appropriation of \$7.5 million in CS HB 337 will be recovered by the State in about 11 years (by FY 2010) and general fund savings will continue to accrue in the following years.

The basis and assumptions used in arriving at the PCE projected savings calculations are:

FY97 PCE disbursements to Cordova Electric Cooperative, Inc. at the 85% level: \$654.1

2% annual increased disbursements;

Continue PCE disbursements at the 85% level and no other changes to the PCE program.

Completion of the Power Creek Hydroelectric project: June 30, 1999;

General Fund appropriations will be needed to support the PCE program effective FY2000.

Prepared By: Remond Henderson, Director *Remond Henderson* Phone: 465-4708
 Division: Administration Date: 2/5/98
 Approved by Commissioner: *Mike Irwin* Date: 2/5/98
 Agency: Mike Irwin, Dept. of Community & Reg. Affairs

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**Cordova Electric Cooperative, Inc.**

P.O. BOX 20 • CORDOVA ALASKA 99574 • 907 424 5527 • FAX 907 424 5527

RESOLUTION 98-03

A RESOLUTION IN SUPPORT OF HOUSE BILL 337 AND THE CONCEPT OF HOUSE BILL 336 OF THE 20TH LEGISLATURE, SECOND SESSION

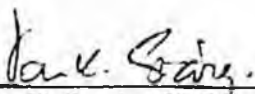
WHEREAS, Cordova Electric Cooperative, Inc. is constructing the Power Creek Hydroelectric Facility to lower the cost of power in Cordova, and

WHEREAS, Cordova Electric Cooperative, Inc. is willing to relinquish PCE funding in exchange for a State grant in the amount of \$7.5 million, and


WHEREAS, Cordova Electric Cooperative, Inc. has secured financing for the remainder of the total project cost which is estimated at \$15 million,

THEREFORE, BE IT RESOLVED that the Board of Directors of Cordova Electric Cooperative hereby urges passage of House Bill 337 and supports companion legislation which would preclude Cordova Electric Cooperative from future eligibility for Power Cost Equalization funding, if Cordova Electric Cooperative receives a State Grant in the amount of \$7.5 million for the Power Creek Hydroelectric Facility.

Dated and approved this 26th day of January, 1998



Jon K. Stavig, CEC-President



Patricia L. Jones, Secretary/Treasurer





Cordova Electric Cooperative, Inc.

P.O. BOX 20 • CORDOVA ALASKA 99574 • (907) 424-5555 • FAX (907) 424-5527

POWER CREEK HYDROELECTRIC PROJECT FACT SHEET

◆ Cost of Money

- Cordova Electric Cooperative (CEC) has the highest blended interest rate in the State for utility loan funds.

◆ Cost of Power

- The average cost of power in 1997 was 20.41 cents per KWH.
- Grant financing will lower the average cost of power to 15.82 cents per KWH.

◆ State Help on Other Projects

- The four-dam pool received \$300 million in grants.
- Seward received \$15 million in grants for an intertie to the railbelt power grid.

◆ Status of Project

- The Federal Energy Regulatory Commission (FERC) issued the license on December 24th, 1997.
- CEC has received \$4 million in grants from the Federal government over the past two years and is in queue for \$3.5 million this year. Many thanks to our congressional delegation, especially Senator Stevens.
- The Alaska Division of Energy approved a \$1 million 0% interest loan to fund part of the cost of obtaining the FERC license.
- Construction is scheduled to begin this spring with completion in 1999.

◆ PCE Benefits

- CEC receives the largest PCE amount of any single community in the state, which averages \$700,000 per year.
- Since the 1992 feasibility study done by the Alaska Energy Authority, CEC has stated that in return for grant funding for 50% of the project that CEC would give up the PCE program after the project was commercially operational for a one-year period.

Now is the time to speak up about power cost equalization

By Charles Y. Walls

While we Alaskans continue to debate and solve many of our problems, making way for our different viewpoints, there is one issue that we all usually agree upon: The need for dependable, reasonably priced electricity for rural Alaska.

Local governments and utility companies of all sizes wrestle with various funding and regulatory sources year-round to make sure they can pass on the best deal to their communities and customers. For just over a year the Alaska Rural Electric Cooperative Association's Rural Issues Forum has been pro-actively trying to educate people on rural energy problems; specifically on the Power Cost Equalization program.

The rural utility managers who are members of the Rural Issues Forum are worried that if the PCE program's funding source isn't stabilized within the next three years, many rural Alaskans will be faced with electric bills so high it could bring about a collapse in many areas of the rural economy.

The PCE program was created by the state in 1984 as part of its commitment to long-term affordable power for all Alaskan communities. While Railbelt communities have benefited from hydroelectric plants and interties, rural residents receive credits from the PCE program to offset the high cost of generating power in rural Alaska. Your PCE credit is your fair share

Commentary

of the state's capital spending for energy. Even after the equalization program, residents of 102 rural communities still pay more than twice the urban rates.

Originally the PCE funding was intended as an annual appropriation. Three years ago a legislative change made a one-time \$67 million grant to PCE. At current spending rates the fund will be spent in 1999. We are uncertain where future funding will come from.

As a group, the Rural Issues Forum has proposed several ways of decreasing funding. Rural utilities have prepared for a smaller, but sustainable PCE program going into the 21st century by working hard on decreasing operating costs and exploring alternative forms of energy. In fact, state figures show rural utilities' operating costs have declined by about one-third (after inflation adjustment) since the PCE program began. For example, AVEC has doubled the fuel efficiency of its power plants over the past twenty years. But without the PCE program some utilities serving small communities could fail, forcing community facilities into self-generation at even higher costs. Why would they fail? It's a simple economy of scale. Larger sales bases are able to spread their costs out better than utilities with smaller sales bases.

Increased electric rates would create a

Catch-22 in rural Alaska. The higher rates could cause customers to cut way back on their power consumption, which would create increased operating costs and plant inefficiencies to serve the shrinking demand base. Our customers who would not be able to pay their bills would create another cycle of problems.

Funding to the PCE program has decreased over the past several years. The program benefit level is at 85 percent of full benefits, which will require an estimated \$19.3 million in fiscal year 1998.

This year the Alaska State Legislature did the right thing and funded the PCE fund for another year. They did so with some debate, however, because there are always more worthwhile projects around than there is funding dollars. This means the PCE program must always restate its case as a worthwhile program and that we must constantly remind legislators about their promises to rural Alaska and the program's intent. What was the original intent? PCE is not a rural subsidization freebie, it is an equalization of rates between urban Alaska and rural Alaska, where often the electrical rates are four times greater. PCE is an effort to level the playing field, so rural residents don't have to live in third-world conditions and so rural Alaskans can make economic development dreams become realities without being unfairly burdened by high utility rates.

As the summer season fades to winter, we

know the electric bills will be rising. I would say that now is the right time, as we head into another winter, to remind the people who are most important to the ongoing success of the PCE program about its needs. It is right now that your legislators — your neighbors — are home. And don't forget, Gov. Knowles also takes time to travel around the state.

I would suggest that the next time you see a legislator or other state official in your hometown that you let them know how important PCE is to your utility bills during those cold, winter months.

Be sure to tell your legislators, too, that without a stable funding source the PCE program fund will be completely empty by 1999. Tell them you are grateful for their ongoing support, because as a whole our rural legislators have been very supportive of PCE.

The state has big investments to protect in rural Alaska. Billions of dollars in capital spending projects for hospitals, public health clinics, safety facilities, schools and water and sewer projects that need a steady, reliable, affordable energy supply.

The PCE program is a worthy program that deserves the assurance of a stable funding source and the commitment by legislators to rural Alaska.

Charles Walls is the ARECA Rural Issues Forum Chairman and President & CEO of Alaska Village Electric Cooperative, Inc.

Letters to the editor

...asses

and Moose Caboose are to be commended for an outstanding effort in ... of aluminum

Future Problem Solver or call Miriam at 424-3178. Thanks for recycling!

from in front of the Nicoloff house on the corner of Third and Council to access power lines. This left the entire ... the alley with

diverted the water back to the street and stopped the flooding. An hour or so after we had the flooding stopped, Jim Roberts appeared. At no time did

CS FOR HOUSE BILL NO. 336(JUD)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - SECOND SESSION

BY THE HOUSE JUDICIARY COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES KUBINA, Kott

A BILL

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20 "eligible electric utility";

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: February 6, 1998

FURTHER REFERRALS:

Finance

Date of Committee Action: 2/18/98

The JUDICIARY Committee considered:

HB 336

HOUSE BILL NO. 336

ELIGIBILITY FOR POWER COST EQUALIZATION

"An Act relating to eligibility for power cost equalization."

recommends it be replaced with the following committee substitute CS HB 336 (JUD) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S):

(Dept)

APPROVES PREVIOUS:

(Dept/Date)

fiscal note(s) Community + Regional Affairs fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) _____

| SIGNING WITH RECOMMENDATIONS | DP | DNP | NR | AM |
|------------------------------|----|-----|----|----|
| <i>Mark Wolf</i> | ✓ | | | |
| <i>John Kotaly</i> | ✓ | | | |
| <i>Thomas Foster</i> | ✓ | | | |
| <i>Joseph [unclear]</i> | ✓ | | | |
| <i>Leon Bueche</i> | | | | ✓ |
| <i>Edna [unclear]</i> | ✓ | | | |
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| | | | | |

CHAIR'S SIGNATURE *Joseph [unclear]*

FISCAL NOTE

No: 1

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO: Bill Version: CSHB 336 (CRA)
(H) Publish Date: 2/6/98

Revision Date: _____ Dept. Affected: Community & Regional Affairs
Title: An Act relating to eligibility for power cost BRU: Rural Energy Programs
equalization Component: Energy Operations
Sponsor: Representative Kubina Power Cost Equalization
Requestor: House CRA COMPONENT SERIAL NO. 1965

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

| OPERATING | FY 99 | FY 00 | FY 01 | FY 02 | FY 03 | FY 04 |
|-------------------|-------|---------|---------|---------|---------|---------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS CLAIMS | | (347.1) | (708.0) | (722.2) | (735.6) | (751.4) |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | | | | | |

| | | | | | | |
|----------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
|----------------------|--|--|--|--|--|--|

| | | | | | | |
|--|--|--|--|--|--|--|
| CHANGE IN REVENUES () Revenue Code | | | | | | |
|--|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|--------------------------|--|---------|---------|---------|---------|---------|
| 1002 Federal Receipts | | | | | | |
| 1003 GE Match | | | | | | |
| 1004 GE | | (347.1) | (708.0) | (722.2) | (735.6) | (751.4) |
| 1005 GE/Program Receipts | | | | | | |
| 1006 GE/MHTIA | | | | | | |
| Other | | | | | | |
| TOTAL | | | | | | |

Estimate of current year (FY 98) impact: \$ -0-

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS: CS HB 336 is associated with a companion bill (CS HB 337) which would provide for an appropriation for the construction of a hydroelectric project in Cordova. If the proposed companion bills are passed, the annual demand on the General Fund for Power Cost Equalization (PCE) will decrease effective January 2000 (six months after the completion of the Power Creek Hydroelectric project), as Cordova Electric Cooperative would no longer participate in the PCE program. The proposed appropriation of \$7.5 million in CS HB 337 will be recovered by the State in about 11 years (by FY 2010) and general fund savings will continue to accrue in the following years.

The basis and assumptions used in arriving at the PCE projected savings calculations are:

- FY97 PCE disbursements to Cordova Electric Cooperative, Inc. at the 85% level: \$654.1
- 2% annual increased disbursements;
- Continue PCE disbursements at the 85% level and no other changes to the PCE program.
- Completion of the Power Creek Hydroelectric project: June 30, 1999;
- General Fund appropriations will be needed to support the PCE program effective FY2000.

Prepared By: Remond Henderson, Director *Remond Henderson* Phone: 465-4708
Division: Administration Date: 2/5/98
Approved by Commissioner: Mike Irwin *Mike Irwin* Date: 2/5/98
Agency: Mike Irwin, Dept. of Community & Reg. Affairs

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