

SB

182

Alaska State Legislature

Chairman,
Judiciary Committee

State Capitol
Juneau, Alaska 99801-1182
(907) 465-3873
Fax: (907) 465-3922



50 Front Street
Suite 203
Ketchikan, Alaska 99901
(907) 225-8088
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Senator Robin L. Taylor

April 11, 2000

Senator Tim Kelly, Chair
Senate Community & Regional Affairs Committee
State Capitol, Room 101
Juneau, Alaska 99801-1182

Dear Senator Kelly: *Taylor*

Please accept this letter as a request for the Senate Community and Regional Affairs committee to hear Sponsor Substitute for Senate Bill 182, "An Act establishing a power cost equalization endowment; and providing for an effective date."

SB 182 will mark the beginning of a stable source of funding for Alaska's Rural Communities. It will eventually eliminate the annual wrestling match over how much we in the Legislature can afford. It will mean that rural residents will not have to worry about where the money is coming from to help offset electric costs that can be as high as 40 cents a kilowatt hour.

Attached you will find a copy of the Bill, Sponsor Statement and other supporting information. Thank you for your considering and scheduling SB 182 as soon as possible. If you have any questions, please feel free to contact Jim Pound or I.I.E.

Sincerely:

Robin L. Taylor
Robin L. Taylor
Senator, Dist. A

Attachments

RLT/jp

Please schedule as soon as you can. This is real across the board. Time is of the essence. RT

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

Alaska State Legislature

Chairman,
Judiciary Committee
Administrative Regulations
Revenue Committee

Vice Chairman,
Resources Committee



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Senator Robin L. Taylor

Sponsor Statement SB 182

“An Act establishing a power cost equalization endowment; and providing for an effective date.”

Every year the Alaska Legislature is required to spend time dealing with a very difficult issue, Power Cost Equalization for rural areas. How to fund this difference in the cost of electrical power becomes even more of a concern based on today's economic problems. Efforts by the legislature to tighten the purse strings will not end with the conclusion of our first five year plan.

Senate Bill 182 addresses this concern and provides an option that lawmakers, must now consider. The bill creates a Power Cost Equalization endowment. Simply put future funding for the Power Cost equalization will be place into a separate trust, managed by the Alaska Permanent Fund Corporation. Based on the corporations performance, eventually Power Cost Equalization could be fully funded by the interest earned. In the short term interest could off-set the costs involved.

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

Support
Re: PCE



ARECA
Alaska's Electric Association
"Electric Service for 556,000 Alaskans"

April 4, 2000

The Honorable Robin Taylor
Alaska State Legislature
State Capitol, Room 30
Juneau, AK 99801-1182

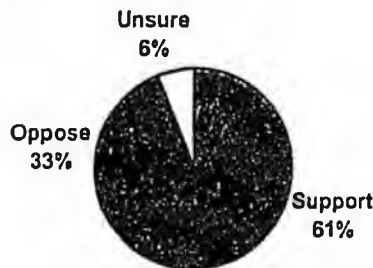
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Ans'd.....

Dear Senator Taylor:

Power Cost Equalization (PCE) and affordable electricity is of vital importance to rural Alaska. Over 76,000 residents in 190 communities receive some assistance with high electric bills through PCE. Community facilities in rural areas such as water and sanitation systems, street and airport lights, public safety and clinics also depend on PCE to make power more affordable.

There is obviously a high level of support for PCE in rural Alaska but ARECA felt it was important to gauge the level of support for PCE in urban areas as well. We asked Dittman Research Corporation to conduct a survey asking urban Alaska voters how they feel about the state continuing to pay a portion of the cost of residential electric bills in rural areas of the state. The poll, taken in mid-March, was designed to survey only urban Alaskans so as not to skew the outcome with respondents who receive benefit from the program.

The results were telling. Well over half (61 %) of the urban Alaskans polled said they support the continuation of the PCE program.



Of the 33% opposed, 11% would change their opinion with more information.

Attached is the survey report from Dittman Research that explains the methodology and gives a breakdown of the demographics of those who responded to the question. We think the results show a high level of support, well over a majority of urban Alaskans, for continuing to make power affordable in rural Alaska. We hope this information will be useful for you as you consider the solutions for funding PCE.

Sincerely,

Eric Yould
Executive Director

enc

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**PCE Program
Research**

March 2000

Prepared for:

**Alaska Rural Electric
Cooperative Association**

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Crosstabulations

METHODOLOGY

METHODOLOGY

Overview

During the period March 14 through March 19, 2000, five hundred six (n=506) Alaskans over the age of 18 – located in Anchorage, Fairbanks, Juneau, Wasilla/Palmer, and Kenai – were personally contacted via telephone by professional interviewing employees of the Dittman Research Corporation of Alaska. The views and opinions of the Alaska residents were recorded on a strictly confidential basis.

Research Design

A random sample design was featured which provided that all households listed in the most current telephone directory for each community had essentially an equal chance of being interviewed.

Sample Selection

Individual respondents were randomly selected from current telephone subscribers listed in the most current directory for each community.

Processing the Data

Dittman Research employees completed coding, editing, data entry and verification, while data processing was completed through the in-house Dittman Research Corporation computer system featuring the Statistical Package for the Social Sciences (SPSS) program. The SPSS program is one of the most sophisticated research-oriented data processing and analytical systems available, and is designed specifically for the processing and analysis of survey research data.

Measurement History

Citizen opinion measurements by the Dittman Research Corporation, utilizing the previously described methodology, analytical procedures and data processing systems, have proven to be virtually perfect predictors of political election results in Alaska for the past thirty-one years.

FINDINGS

FINDINGS

Overall, well over half of Alaskan residents in urban areas (61%) say they support the continuation of the Power Cost Equalization Program to help electric consumers in expensive areas of the state receive financial assistance for part of their electric utility costs...

"The State of Alaska has a Power Cost Equalization Program – or PCE program – which helps rural electric consumers in high-cost areas of the state by paying part of their electricity costs. The goal of the PCE program is to provide economic assistance to customers in rural parts of Alaska, where the cost of electricity is 3 - 5 times higher than in urban areas of the state. How do you feel about this program – do you support or oppose the state continuing to pay a portion of the cost of residential electric bills in rural areas of the state? And is that strongly (support/oppose) or just somewhat?"

61%		28%	Strongly support
		33%	Somewhat support
33%		17%	Somewhat oppose
		16%	Strongly oppose
		6%	Unsure

...and among those who say they oppose the continuation of the PCE program (33%), nearly one out of eight (11%) say they would change their opinion if they knew up to half of the rural area electric utilities would go out of business without the program...

(Asked of those who oppose the PCE program – 33%)

"Would your opinion change if you knew that up to half of the rural electric utilities currently operating wouldn't be able to afford to provide electricity to those areas without the PCE program?"

No, opinion wouldn't change	81%
Yes, opinion would change	11%
Unsure	8%

So in total, urban area support for continued state contribution to the PCE program could be as high as approximately 65%, as follows:

Initial support	61.0%
Informed support	<u>3.6%</u>
	64.6%

Calculated as follows:

33%	initially opposed
11%	would change mind when aware of effect of discontinuation

$33 \times .11 = 3.63\%$

CROSSTABULATIONS

HOW DO YOU FEEL ABOUT THE PCE PROGRAM - DO YOU SUPPORT OR OPPOSE THE STATE CONTINUING TO PAY A PORTION OF THE COST OF RESIDENTIAL ELECTRIC BILLS IN RURAL AREAS OF THE STATE? AND IS THAT STRONGLY OR SOMEWHAT?

DEMOGRAPHICS	UNSURE	STRONGLY SUPPORT	SOMEWHAT SUPPORT	SOMEWHAT OPPOSE	STRONGLY OPPOSE	BASE
TOTAL.....	6%	28%	33%	17%	16%	100.0%
LOCATION						
MAT VALLEY.....	9%	22%	31%	13%	24%	3.9%
FAIRBANKS.....	6%	24%	42%	17%	12%	9.1%
KENAI PENINSULA..	5%	34%	25%	21%	14%	6.9%
ANCHORAGE.....	6%	28%	31%	19%	16%	70.9%
JUNEAU.....	4%	34%	46%	5%	11%	9.1%
GENDER						
MALE.....	5%	28%	30%	18%	19%	45.0%
FEMALE.....	6%	28%	35%	17%	13%	55.0%
AGE						
19 - 29 YRS.....	3%	29%	33%	20%	8%	10.9%
30 - 44 YRS.....	9%	29%	34%	12%	16%	39.2%
45 - 59 YRS.....	1%	31%	31%	21%	16%	34.3%
60+ YRS.....	6%	23%	34%	19%	17%	16.7%
REGISTRATION						
DEMOCRAT.....	0%	42%	39%	12%	8%	16.4%
REPUBLICAN.....	7%	22%	29%	21%	22%	29.7%
NON-PARTISAN....	5%	31%	34%	15%	15%	41.1%
OTHER.....	11%	20%	12%	24%	13%	6.3%
NOT REGISTERED...	14%	18%	33%	21%	14%	6.5%
EMPLOYER						
FEDERAL.....	9%	25%	32%	16%	18%	6.8%
STATE.....	0%	32%	35%	5%	28%	9.0%
LOCAL.....	0%	31%	41%	20%	8%	4.9%
PRIVATE COMPANY..	5%	30%	31%	19%	14%	53.2%
NOT IN WORKFORCE.	8%	24%	35%	18%	16%	27.0%
TIME IN ALASKA						
UNDER 1 YR.....	0%	37%	63%	0%	0%	.7%
1 - 4 YRS.....	8%	26%	30%	16%	19%	7.7%
5 - 9 YRS.....	6%	32%	35%	17%	11%	11.6%
10 - 14 YRS.....	5%	34%	31%	10%	20%	10.0%
15+ YRS.....	5%	27%	33%	19%	16%	70.0%

(asked of n=160 who oppose the PCE program)
 WOULD YOUR OPINION CHANGE IF YOU KNEW THAT UP TO 1/2 OF THE RURAL ELECTRIC
 UTILITIES CURRENTLY OPERATING WOULDN'T BE ABLE TO AFFORD TO PROVIDE
 ELECTRICITY TO THOSE AREAS WITHOUT THE PCE PROGRAM?

DEMOGRAPHICS	UNSURE	YES, WOULD CHANGE	NO, NOT CHANGE	BASE
TOTAL.....	8%	11%	81%	100.0%
LOCATION				
MAT VALLEY.....	10%	10%	80%	4.4%
FAIRBANKS.....	12%	19%	69%	8.0%
KENAI PENINSULA..	5%	10%	85%	7.5%
ANCHORAGE.....	7%	11%	82%	75.6%
JUNEAU.....	17%	8%	75%	4.5%
GENDER				
MALE.....	7%	8%	85%	49.9%
FEMALE.....	3%	14%	76%	50.2%
AGE				
18 - 29 YRS.....	6%	19%	74%	9.5%
30 - 44 YRS.....	14%	12%	74%	33.3%
45 - 59 YRS.....	5%	10%	86%	38.8%
60+ YRS.....	5%	10%	85%	39.4%
REGISTRATION				
DEMOCRAT.....	7%	24%	69%	9.9%
REPUBLICAN.....	4%	8%	88%	38.5%
NON-PARTISAN....	13%	8%	78%	37.6%
OTHER.....	13%	26%	61%	7.1%
NOT REGISTERED...	0%	14%	86%	6.8%
EMPLOYER				
FEDERAL.....	13%	17%	70%	7.1%
STATE.....	0%	0%	100%	3.0%
LOCAL.....	0%	22%	78%	4.1%
PRIVATE COMPANY..	13%	12%	76%	53.3%
NOT IN WORKFORCE.	1%	11%	88%	27.5%
TIME IN ALASKA				
1 - 4 YRS.....	26%	0%	74%	8.4%
5 - 9 YRS.....	0%	19%	81%	9.6%
10 - 14 YRS.....	16%	14%	70%	9.2%
15+ YRS.....	6%	11%	83%	72.9%

POWER COST

PCE

EQUALIZATION

Electricity Powers Healthy Communities

House Special Committee on Utility Restructuring

February 9, 2000

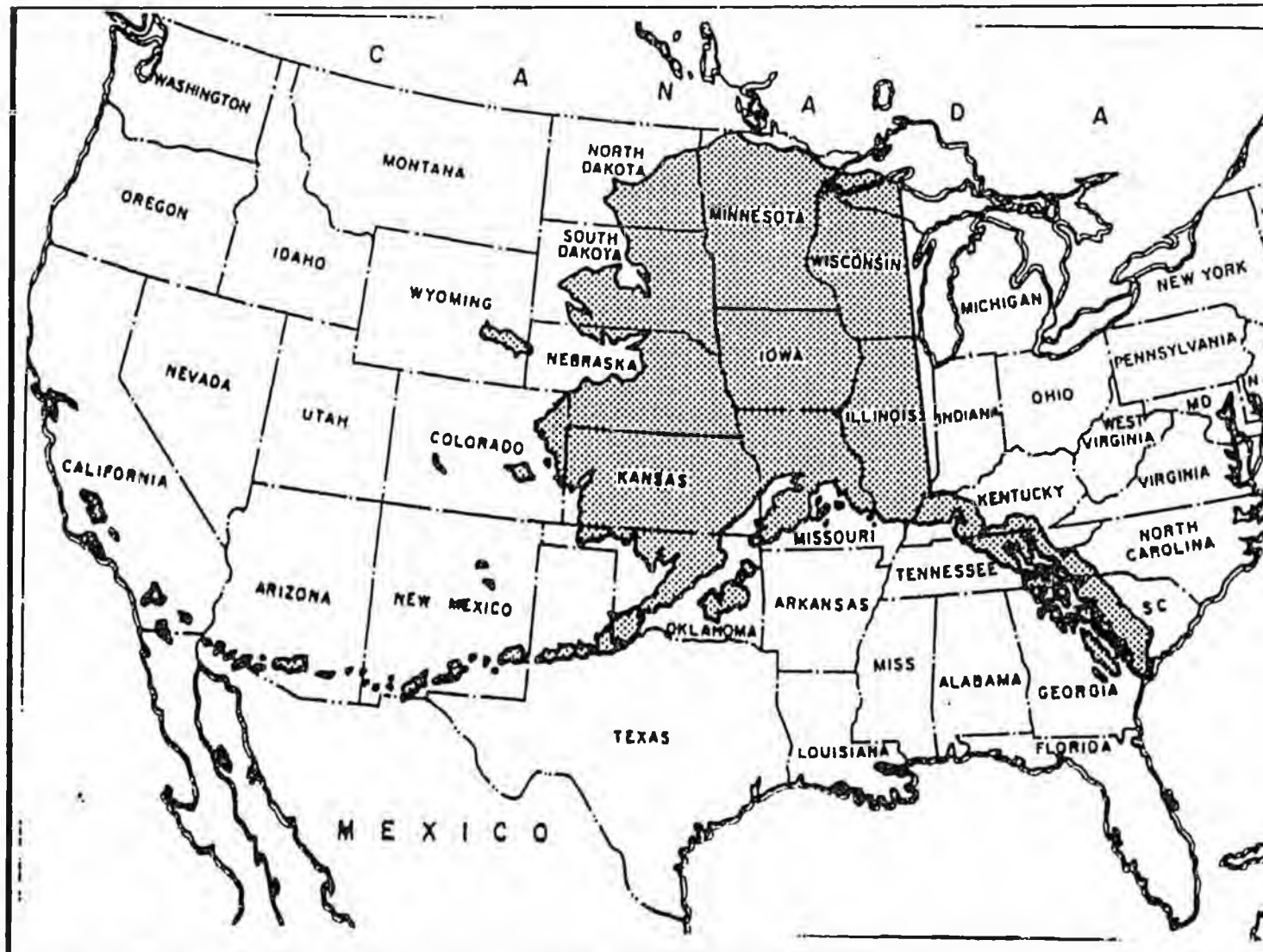
Presented by

Eric Yould, Executive Director

ARECA

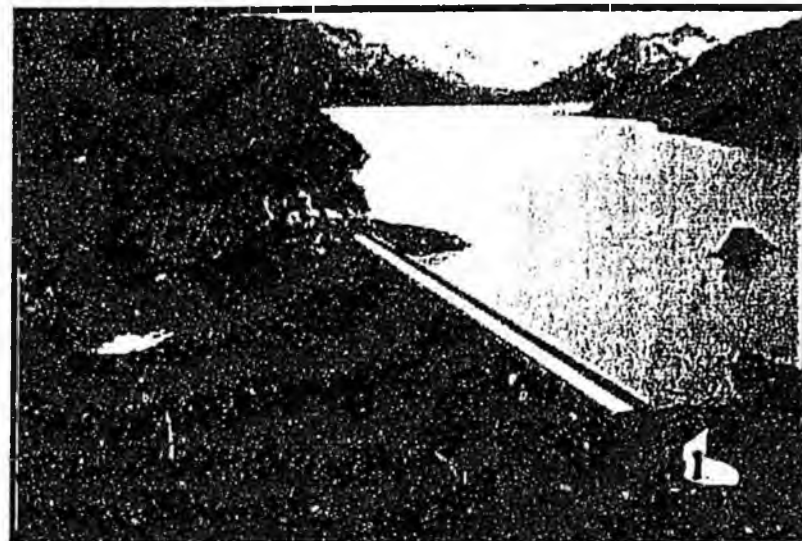


Alaska's Energy Infrastructure





History of PCE



- ◆ The Energy Program for Alaska
- ◆ 1980-Interim measure: Power Production Cost Assistance Program
- ◆ 1984-Power Cost Equalization Program
- ◆ 1993-Long-term commitment through 2013
- ◆ 1999-Encourage conservation (SB 157)

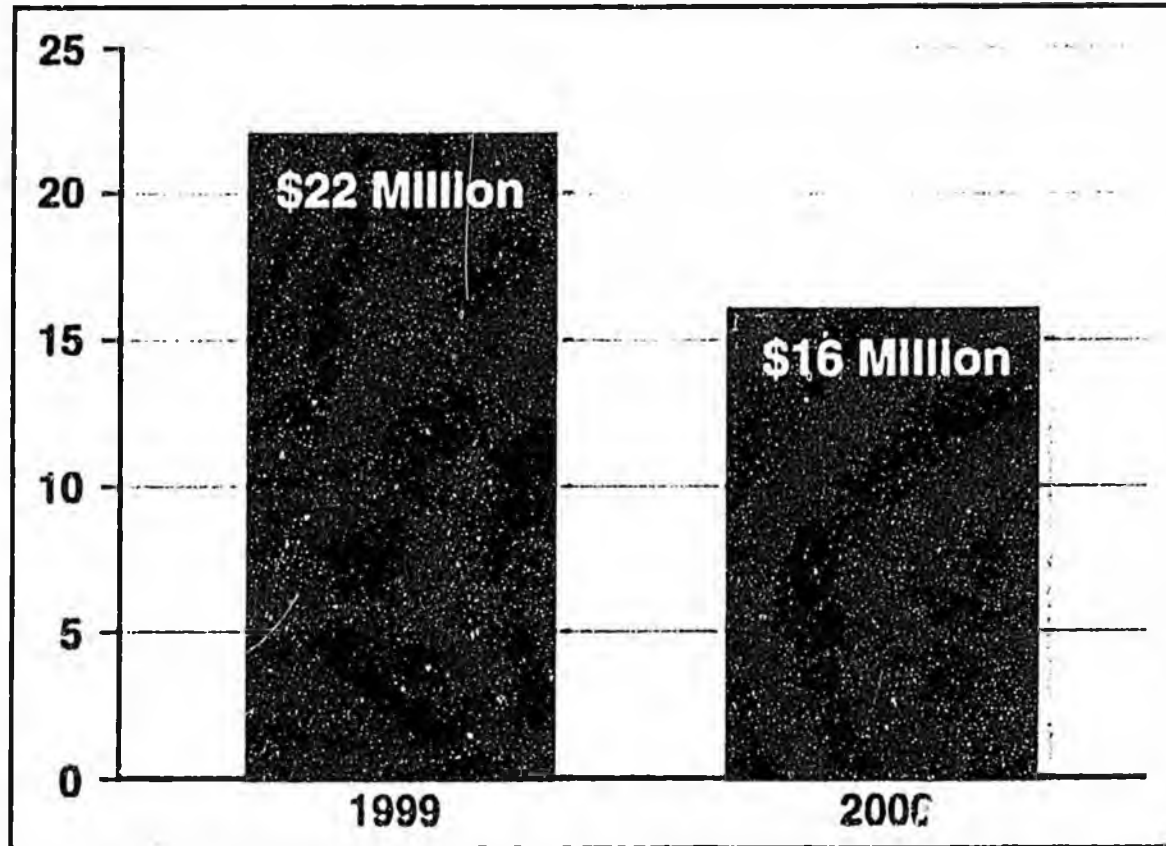


1999 Legislative Changes to PCE

- ◆ Raised the “floor” (target rate for equalization) from 9.5 cents to 12 cents
- ◆ Eligible level of usage reduced from 700 kWh/month to 500 kWh/per month
- ◆ Commercial consumers and schools dropped from the program
- ◆ Identified funding sources
 - National Petroleum Reserve-Alaska (NPR-A) lease revenues
 - 60 percent of Four Dam Pool Revenues



Reduced Cost to State for FY 2000



◆ **Result:** More than \$6 million in savings to the state



Cost of Power (Per Kilowatt Hour)

- ◆ **Urban Alaska: 9.5 cents**
- ◆ **PCE Communities: 42 cents**



Sample Rates (Per Kilowatt Hour)

◆ Alakanuk	42 cents
◆ Akiachak	50 cents
◆ Dillingham	22 cents
◆ Noatak	55 cents
◆ Nome	20 cents
◆ Anchorage	9 cents



Cost of Power With PCE

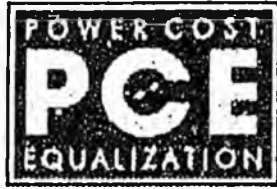
- ◆ **Urban Alaska: 9.5 cents/kWh**
- ◆ **PCE Communities: 21 cents/kWh**
- **Some PCE communities pay over 40 cents per kWh even with PCE.**



Strong Incentive to Conserve

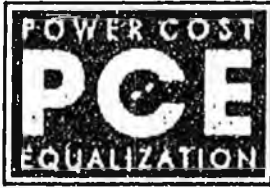


- ◆ Urban 688 kwh/month
- ◆ Rural 326 kwh/month



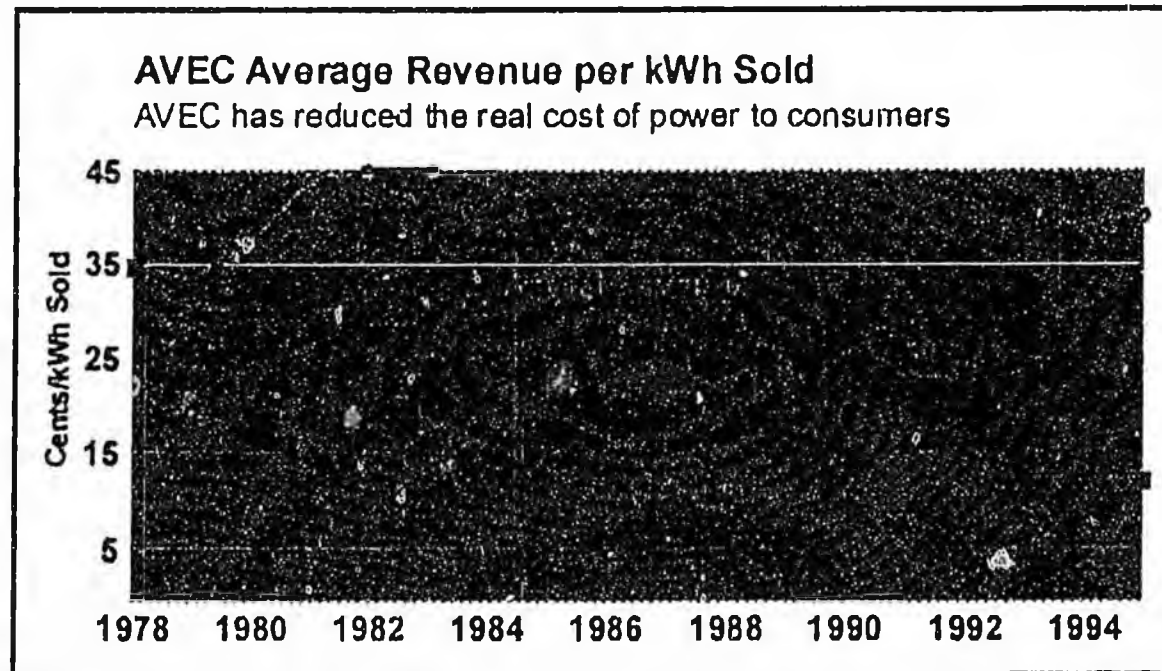
Rural Families Can't Afford Full Cost

- ◆ **Typical household income half of urban income**
- ◆ **18 percent of families below poverty line**
- ◆ **Majority of elders on fixed incomes**



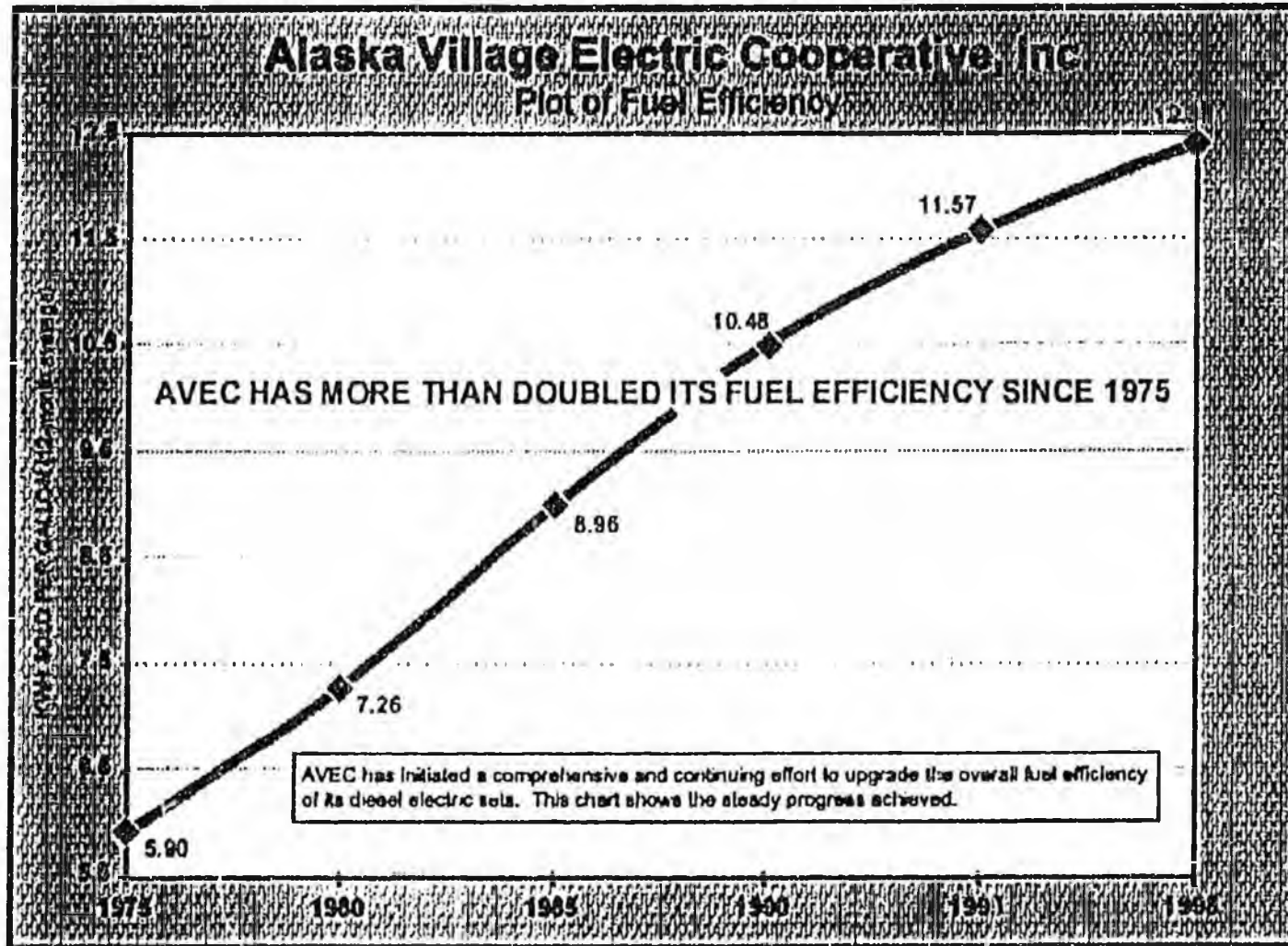
Real Costs Have Decreased

- ◆ Operating costs have dropped 30% when inflation is considered
- ◆ AVEC (serving 51 villages) has decreased rates by more than 50%





AVEC & Others Improving Diesel Efficiency





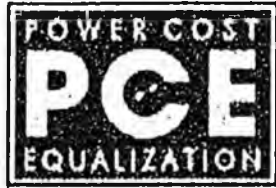
Utilities are Aggressively Seeking Alternatives

- ◆ Wind energy
- ◆ Microturbines
- ◆ Fuel cells
- ◆ Shallow natural gas
- ◆ Hydroelectric alternatives to diesel
- ◆ Alternatives take time and money to develop into cost-effective tools
- ◆ In many communities, there is no good alternative to diesel



Capital Costs High for Alternatives

- ◆ Diesel Plant (with fuel storage) \$1,000 per kW
- ◆ Wind Plant (Wales) \$10,000 per kW
- ◆ Hydroelectric (Old Harbor) \$5,000 per kW
- ◆ Microturbines \$3,459 per kW
- ◆ Fuel Cells \$3,000-\$5,000 per kW



Affordable Power is Essential

- ◆ **Economic Development = Needs Affordable Power**
- ◆ **Healthy Living = Needs Affordable Power**
- ◆ **Safety = Needs Affordable Power**
- ◆ **Jobs = Needs Affordable Power**
- ◆ **Education = Needs Affordable Power**



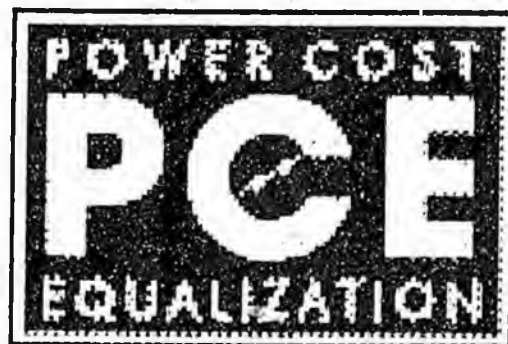
ISER's Conclusions: If PCE Ends....

- ◆ “Death spiral” possible for smaller utilities (potential failure of half the PCE utilities)
- ◆ Both urban and rural communities lose. (\$4.9 million wages/210 jobs)
- ◆ State becomes emergency provider of power/costs go up.
- ◆ Rural consumers' bills will double.



The Goal:

Long-term funding for PCE



*"A Commitment to Affordable
Electric Service for a Healthy
Rural Alaska"*