

SB

88

<target><bill>SB 88</bill><subject>SB
88</subject><comm>SFIN26</comm></target>

Senator Lyman Hoffman

Alaska State Legislature



Sponsor Statement for SB 88

Power Cost Equalization (PCE) is the program designed to (1) extend power assistance to rural Alaska as a response to the development of other power around the state and (2) make power more affordable to rural Alaskans. SB 88 proposes to make permanent the changes to the program adopted by the last legislature, which made higher cost power eligible for PCE. This helps Alaskan families continue to afford to buy the electricity that provides the basic services that we all take for granted.

Residents of Alaska whose electricity is generated by oil have seen their power costs increase significantly during the past few years. Last year for example, oil was purchased during the summer when delivery by barge was possible. At that time, they paid the highest price ever recorded. In consequence, though the price of a barrel of oil has plummeted, the cost in the villages continues to reflect the price at which it was purchased - currently over \$7.00 per barrel in many communities.

During the previous legislative session, this high cost of electricity was acknowledged by a change in the Power Cost Equalization statute. It recognized the high cost of fuel and the subsequent increase in Power Cost Equalization by increasing the upper limit, the ceiling, of the PCE calculation from 52.5 cents per kilowatt hour to \$1.00 per kilowatt hour. This change was for this heating season only, and sunsets on June 30, 2009.

The floor is a weighted average of the cost of power in Anchorage, Fairbanks and Juneau; currently a little over 12 cents per kilowatt. Power Cost Equalization is paid only on the first 500 kilowatts of power used each month. Any use above that does not qualify for PCE. The amount of PCE for each eligible family depends on a calculation which determines a floor and an amount per kilowatt which establishes the ceiling. As noted, the ceiling is now \$1.00 but will revert to 52.5 cents if this bill were not to pass. PCE payments are made on any cost for power falling within this band. For many utilities, the cost of producing power now exceeds 52.5 cents per kilowatt. Consequently, for many electric users, reverting to a PCE ceiling of 52.5 cents would mean considerably higher power bills.

Because power costs in many rural communities are approaching the \$1.00 per kilowatt range, it is crucial that PCE helps households by making power more affordable, particularly for basic services. To not pass this legislation would mean that many rural families would simply not be able to afford to buy the electricity needed for even the basic services that we take for granted.

SENATE FINANCE COMMITTEE REPORT First Committee of Referral

DATE: 1/28/09

FURTHER:

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered SENATE BILL NO. 88

SB 88 POWER COST EQUALIZATION

"An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____


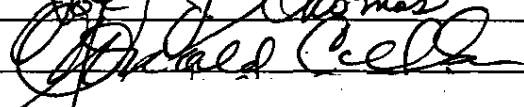
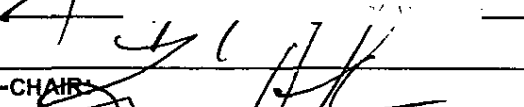
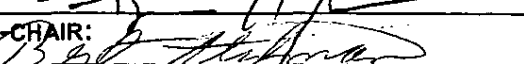

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet	Zero	FN#
CED	2/2/09	✓			

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Huggins	✓			
	Thomas	✓			
	O'Shea	✓			
	Hoffman	✓			
	Hoffman	✓			

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: SB088-DCCED-AEA-01-3
Bill Version: SB 88
() Publish Date: _____

Identifier (file name): SB88-CED-AEA-02-02-09

Dept. Affected: Commerce

Title Power Cost Equalization

RDU Alaska Energy Authority

Component AEA Power Cost Equalization

Sponsor Senate Finance

Requester Senate Finance

Component Number 2602

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims		5,500.0		5,500.0	5,500.0	5,500.0	5,500.0
Miscellaneous							
TOTAL OPERATING		5,500.0	0.0	5,500.0	5,500.0	5,500.0	5,500.0

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()							
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
Other PCE Endowment (1169)							
Other PCE Fund (1089)		5,500.0		5,500.0	5,500.0	5,500.0	5,500.0
TOTAL		5,500.0	0.0	5,500.0	5,500.0	5,500.0	5,500.0

Estimate of any current year (FY2009) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill continues a maximum \$1.00 per kilowatt-hour cap for power costs paid by the PCE program. This fiscal note represents the additional funding needed for the PCE program if the bill passes. The Governor's budget currently contains \$32.16 million. The total funding needed if this bill passes is anticipated to be \$37.66 million.

Prepared by: Linda MacMillan, AIDEA & AEA Finance-Project Accountant

Division Alaska Energy Authority

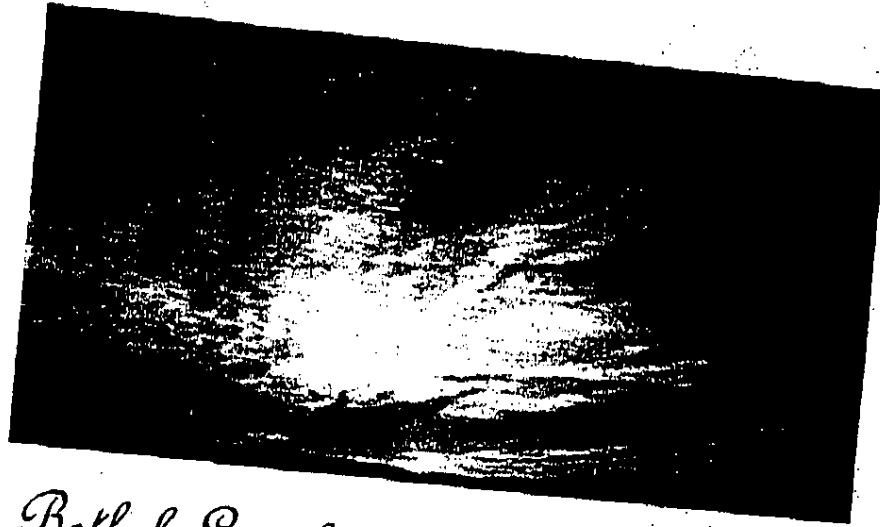
Phone 907-771-3029

Date/Time 1-30-09/5:00pm

Approved by: Amanda Ryder, Director

Administrative Services, Dept. of Commerce, Comm & Econ Development

Date 02-02-09/8:30am



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Date: 2/3/09

Subj: Myron L. Nanang's Testimony

Pages: 4 (w/cover)

BILL: SB 88

BILL VERSION:

CURRENT STATUS: (S) FIN

SPONSOR(s): FINANCE

HEARING: (S) FIN Feb 03 9:00 AM SENATE FINANCE 532 TELECONFERENCE

SHORT TITLE: POWER COST EQUALIZATION

STATUS DATE: 01/28/09

TITLE: "An Act repealing certain provisions relating to modifying the factors that apply to calculate the amount of power cost equalization; providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008; and providing for an effective date."

AVCP, Inc.
Testimony to the 26th Alaska State Legislature
Senate Finance Committee

By
Myron P. Naneng, Sr., President

Regarding SB 88

Tuesday, February 3, 2009

Good morning Chairman Hoffman and Co-Chairman Bert Stedman. We at the Association of Village Council Presidents, Inc. (AVCP) are grateful for you to be holding this discussion in order to bring more appropriate energy relief to remote, rural Alaska communities like the 56 villages in our Yukon Kuskokwim region.

My name is Myron Naneng, I am President of our regional non-profit corporation. What we are testifying to today comes as no surprise to either of you, since you tried to address it in the last session through SB 4002. Since early last summer, tribal leaders as well as myself were very nervous about our coming winter since we were forced to prepay our winter fuel purchases for our tank farms at the highest costs of oil on record.

Because we are roadless, all of our villages have to import fuel by barge or by air in emergencies. In most cases, we have no choice but to sign no-fault contracts with fuel vendors if weather or acts of god prevent a scheduled delivery. Some of our villages, with human resources turnover or other constraints, are unable to make their fuel orders in concordance to State programs such as the bulk fuel loan in time to lock in at more agreeable rates. Factors such as these aggravate the already challenging nature of providing light and heat to our communities with little or no energy infrastructure.

Rural Alaska village communities are faced with extremely high costs of living, in particular, the people of the Wade Hampton district are having to pay upwards of \$0.62 per kWh for electricity, \$7.68 per gallon for heating fuel and, recently upwards of \$11.00 for heating fuel that had to be flown into the village of Emmonak when they ran out of fuel. Energy costs are up to 60% or more of household costs for many rural Alaskans in this census district whose average incomes are \$30,184. Some households went without electricity and fuel for heat because of the extremely high costs and lack of income to

pay. Clearly, energy costs in rural Alaska makes life unsustainable, and practically unhealthy. The high cost of energy combined with the severe cold winter of 2008 and 2009 is a threat to the general health and wellbeing of the residents of this region.

The villages in our region are extremely remote have great distances from major transportation hubs and commercial centers, have small size and economy of scale, and there are tremendous logistical problems and high costs for transporting fuel for home heating and electricity. This contributes to a high cost of electrical power plants with high capital and operating costs. All the villages in this region are dependent upon diesel fuel for electricity and home heating. It is often the only and best solution when considering the available energy resources, cost for development and deployment, and the small loads often experienced in rural Alaska villages. Diesel-electric power plants provide an efficient and effective energy solution in many cases. PCE provides a buffer against the high costs of electricity.

There have been concerns expressed by some of your colleagues within the Senate and your House counterpart that the subsidy suggested in SB 88 creates an unending entitlement program, that it is an insufficient one-size-fits-all solution to an enduring program. Truthfully, it could be that way should the commercial fisheries continue to collapse; however, the circumstances that brought about this particular energy crisis are unusual. The price of oil topping over \$100 a barrel, the commercial salmon fishery on either river no good, but catastrophic on the Lower Yukon, the early freeze-up and particularly hard winter has sopped up whatever energy program and cash most families need for our sub-arctic winters. Because of the poor fishing season, the cash usually generated by that commercial practice was not there to outfit seal, small whale or moose hunting and gathering expeditions that make up most of our winter sustenance.

With continued and full funding by the Legislature of the Renewable Energy Fund coupled with possible federal stimulus infrastructure funds, we may be looking at a reality where accessible energy sources come to fruition in a matter of years, rather than a matter of decades. With affordable energy at the village level, a failed fishing season would not break us as badly as this hard winter has shown.

Though Governor Palin herself has not directly acknowledged the fishery or fuel crisis in our region, in her response to the U.S. Army's reduced retirement payments to 26 Alaska Native Elders who had served in the Territorial Guard during WWII, she argued:

"Rural Alaskans face the highest food and energy costs in the nation, and these veterans need their retirement checks now more than ever," Governor Palin said. "Using the emergency fund to provide monetary protection for these 26 veterans is the right thing to do."

When arguments on fairness and equality are thrown around, keep in mind, that families with mid-range incomes who live in Anchorage were projected to spend about 3% of their income on energy costs (based on May prices) and that figure increases to about 5% of your income if you live in other cities or towns on Alaska's road system.

Mid-income households in remote villages (places you can only reach by water or plane) were expected to spend about 11% of the paycheck on energy because we rely on diesel fuel, while the majority of Anchorage families use natural gas.

ISER estimates that the median annual cost of power and heating costs for an Anchorage family is about \$2,400, compared to about \$4,100 for midsize towns and cities and **\$6,600 for remote rural villages.**

AVCP provides direct assistance to many families in our member villages that include a Housing Improvement Program, TANF and LIHEAP to name a few. Last year we assisted 1,846 households with energy assistance, and we anticipate the same number if not more appeals for the remainder of this season.

On a related matter, there has been a lot of discussion among regional and tribal entities about heating and lighting village dependent offices that are necessary for operations to the community. When Governor Palin said in her Energy Plan press conference that she had tried to, but failed, to get a hold of people in Emmonak in response to a private citizens appeal for help in the Bristol Bay Times, we were confused as to whom she tried to communicate with. . .the people of Emmonak from the Mayor's office, the tribal council and Nick Tucker all said an hour before in our joint Agency teleconference that their calls were never answered in the Governor's office. It turns out that whatever attempts the Governor's office made - was communicating to a closed up City Office, because the village can't afford to keep the building operational more than one week out of the month. All other entities were operational, all of them frantically calling out for help with the State.

We tried to do this proactively, in public statements and resolutions. We warned that the \$1,200 rebate would not adequately address the remote / rural fuel needs - and with the taxes due from as little as \$90 to over \$300 per person, we will continue to see pain in affected households this year. If we had access to affordable energy sources, all the factors we laid out for you would not have hurt us so badly this winter.

Senator Hoffman's call for the state to make up the difference in the instance where an Alaskan has to pay more than \$3 a gallon for residential heating fuel up to 600 gallons purchased per residence from September through March, in addition to SB 88's extension of the PCE program, will go a long way to keeping our homes heated, and saving our families from deciding between freezing or going hungry.

Power Cost Equalization Questions and Answers

Mike Harper, Deputy Director/Linda MacMillan, Project
Accountant

Rural Energy Group, Alaska Energy Authority

February 3, 2009



Power for Rural Alaska

30 year History

- **Statewide -almost no transmission in Alaska**
 - Chugach Electric owned a line from Beluga through Anchorage to Nikiski
 - Fairbanks relied on local heavy oil and coal
 - Diesel fuel was the primary energy source elsewhere
- **Very little hydropower**
 - Eklutna – 30 mw, serving ML&P, MEA, CEA
 - Cooper Lake – 20 mw, serving CEA
 - Snettisham – 52 mw, serving Juneau
 - ~20 mw of small projects scattered throughout SE Alaska

Power Development Begins -Oil Started flowing down the Pipeline

The State began to spend its newfound wealth

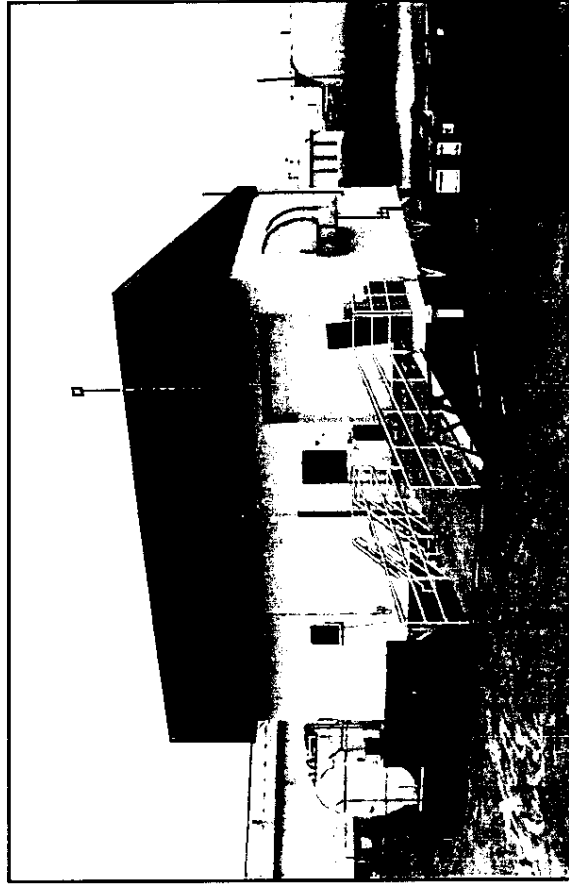
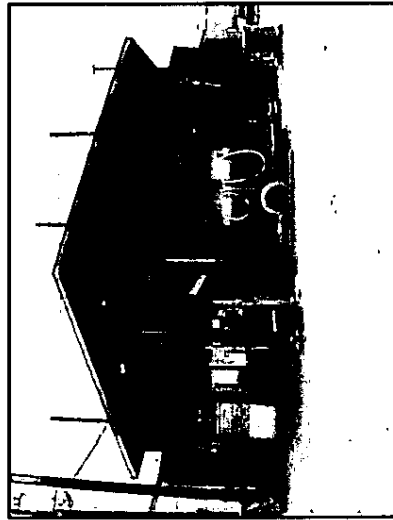
- A transmission line to Fairbanks was started
- The Susitna mega-project design was started - 1981
- The Bradley Lake project was started - 1983
- Kodiak, Valdez, Ketchikan, Wrangell and Petersburg began work on 4 Dam Pool - 1983
- Studies were commissioned to identify projects to reduce the cost of electricity throughout Alaska

Alaska Rural Electrification The First Assistance program

- Oil prices peaked in 1979
- Diesel-fueled utilities were hit hard
- Legislature established the Power Production Cost Assistance Program in 1980 – a one year stop-gap
- In 1981, the program was amended into the Power Cost Assistance Program, which was designed to self-extinguish in five years

RPSU program: Golovin power house

Golovin Before and After



Alaska Rural Electrification

And finally - PCE

- **There was no silver bullet to cure rural Alaska's electric needs**
- **Small loads and small communities spread across thousands of miles could not be interconnected**
- **Legislature established Power Cost Equalization**
 - **Cost of power was to be equalized to the average of Anchorage, Fairbanks and Juneau - 8.5 cents per kwh**
 - **PCA was rewritten as PCE - effective October 1984**
 - **Utilities using diesel to generate at least 75% of power in October 1984 were eligible**
 - **Costs above 52.5 cents were not covered**
 - **All users were eligible for the first 700 kwh used**

Power Cost Equalization

- **Eligible electricity has been reduced 30% to 500 kwh**
- **Only one meter per resident**
- **Commercial customers are ineligible for PCE**
- **Fuel use the same, but cost up 150% since FY00**
- **FY09 funding (\$28 million) is at 100% level**
- **More utilities crossing through the 52.5 cent ceiling**

PCE Program Changes in Recent Years

	<u>2000</u>	<u>2007</u>
Population served	77,625	78,530
Total Sales (gWh)	391	416
Eligible Sales	116	122
Percentage eligible	29.7%	29.2%
Average Fuel Cost/gallon	\$1.10	\$2.78
Fuel Consumed – million gallons	27.7	27.6
Fuel cost – millions	\$30.4	\$75.3
Non-fuel cost – millions	\$41.5	\$67.4
Total PCE Appropriations – millions	\$14.4	\$25.6
Percent of costs	20%	18%



Qn#1 – Does PCE Reduce Rural Power Cost to Urban Levels?

Residential Power Cost per 2007 PCE Report

Chugach Electric	Anchorage	.1205 kWh
Golden Valley	Fairbanks	.2030 kWh
AEL&P	Juneau	.1140 kWh
Kodiak Electric	Kodiak	.1831 kWh
Kotzebue Electric	Kotzebue	.1881* kWh
AVEC	52 Villages	.2362* kWh
Bettles	Bettles	.2859* kWh
MKEC	5 Villages	.4398* kWh
Napakiak	Napakiak	.6014* kWh

*after PCE

Cost of 700 Residential kwh

• Anchorage	\$84.35
• Fairbanks	\$142.10
• Juneau	\$79.80
• Kodiak	\$128.17
• Kotzebue	\$171.05*
• AVEC Village	\$219.56*
• Bettles	\$268.63*
• MKEC	\$374.88*
• Napakiak	\$489.48*

***After PCE**

Qn. #2 – Who gets PCE?

- **Every residential consumer**
 - Only one meter per consumer
 - Only the first 500 kWh
- **Community Facilities**
 - Up to 70 kWh/resident per month
 - Streetlights
 - Washeterias
 - Water and sewer facilities
 - Community buildings

Qn. #3 – Who doesn't get PCE?

- **Schools**
- **State facilities**
- **Federal facilities**
- **Commercial consumers**
- **Consumers with seriously delinquent accounts**

Qn. #4 – How does PCE work?

- **Utility applies to RCA to participate**
- **Utility submits detailed cost and operational data**
- **RCA determines eligible costs and computes PCE by rate class**
- **Utility bills customers per normal tariff rates**
- **Utility applies PCE credit based upon actual consumption (subject to kWh limit)**
- **Consumer is responsible to pay bill after PCE credit**
- **Utility bills state (AEA) for all PCE credited**
- **Utility provides AEA with detailed billing records**
- **Utility files annual update of costs with RCA, per schedule established by RCA**

Qn#5 - Doesn't PCE discourage Conservation & Innovation?

- Only 29% of all electricity sold in eligible communities receives PCE
- But the smaller the community, the more kwh that are eligible (because of minimal commercial usage)
 - Akiachak 46%
 - Aniak 37%
 - AVEC 48%
 - Cordova 28%
 - Kotzebue 27%
 - Napakiak 72% (School is on own generation)
 - Tanana 38%

Non Fuel Costs –Overhead

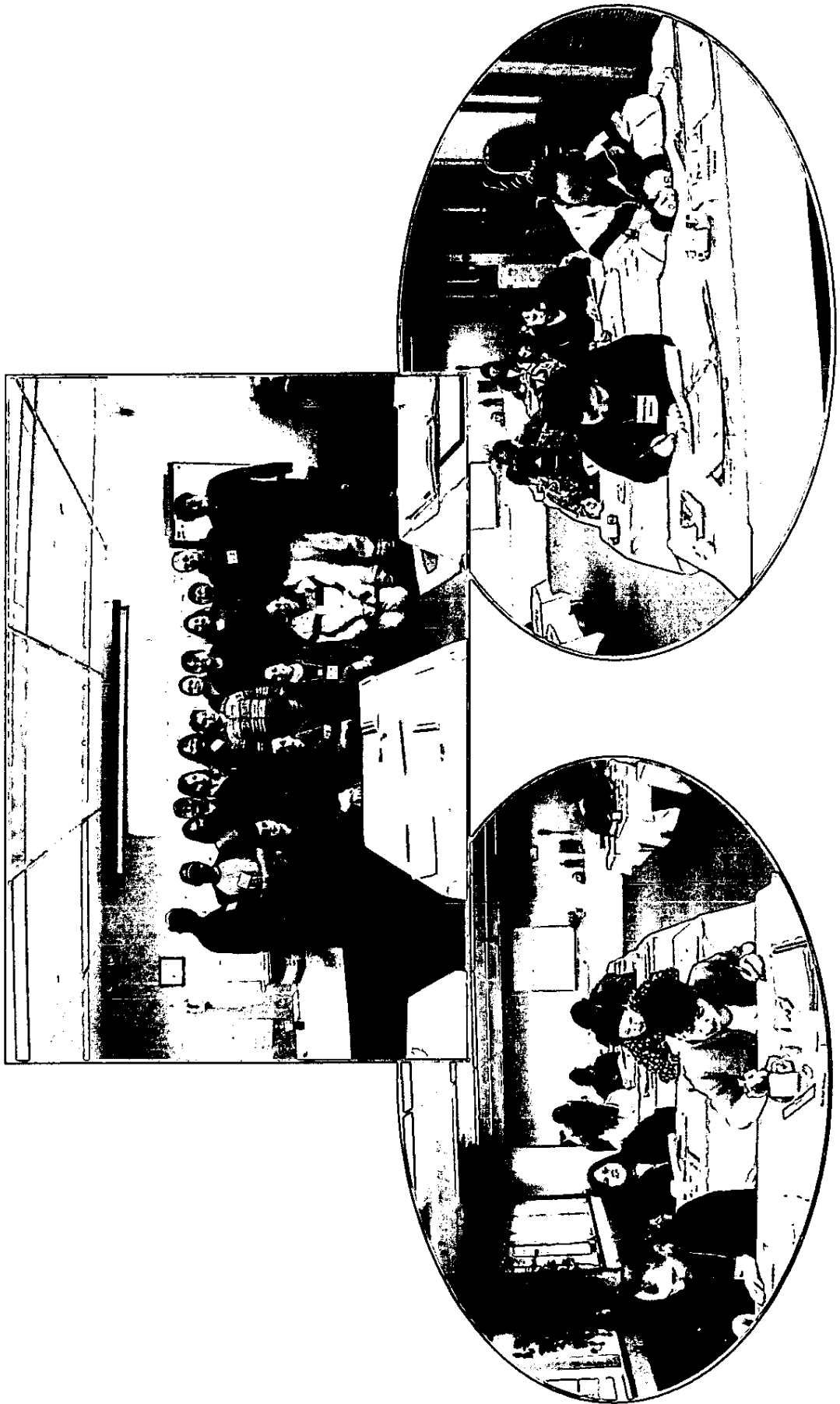
- **Operating and maintaining power plants**
- **Operating and maintaining tanks farms**
- **Operating and maintaining distribution lines**
- **Connecting customers, billing, collections**
- **Administration, accounting, engineering, warehouse**
- **Insurance, depreciation, cost of long-term debt**
- **Taxes and miscellaneous**

Qn#6 – Would PCE Money be better spent on Alternative Energy?

Wind generation costs 6 times diesel generation

- **We cannot use 'utility grade' turbines as in Lower 48**
- **Average village load is ~150 kw**
- **There are only 1 or 2 manufacturers of 50-100 kw units**
- **To accommodate sophisticated integration needs, the existing generation and distribution must be upgraded**
- **Typical cost of an integrated project \$4+ million**
- **Diesel generation and fuel tankage still needed for the 70%+ energy that wind cannot provide**

PCE Utility Clerk Training



**For more information, please
contact...**

Jeff Williams or Chris Mello

AEA Rural Energy Group

1-888-300-8534 – Toll Free

1-907-771-3000



Senator Joe Thomas
February 2, 2009

Golden Valley Electric Association Residential Electric Rates
(includes energy charge and fuel adjustment)

December 1, 2006	\$.12885 /kWh
March 1, 2007	\$.13053 /kWh
June 1, 2007	\$.13534 /kWh
September 4, 2007	\$.14026 /kWh
December 3, 2007	\$.16280 /kWh
March 3, 2008	\$.17056 /kWh
June 1, 2008	\$.20266 /kWh
September 2, 2008	\$.19502 /kWh
December 1, 2008	\$.15241 /kWh

LEGAL SERVICES

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MEMORANDUM

January 28, 2009

SUBJECT: Senate Bill 88, repealing delayed amendments to the power cost equalization program in order to make permanent certain formula amendments that were treated as temporary when enacted -- sectional analysis (Work Order No. 26-LS0414\R)

TO: Senator Lyman Hoffman, Co-Chair
Senate Finance Committee

FROM: Jack Chenoweth
Assistant Revisor

Among other additions and amendments, § 2, ch. 2, 4SSLA 2008, temporarily amended the parameters for a community to be eligible to receive power cost equalization payments under the power cost equalization program.¹ For one year, now scheduled to

¹ Substantively, § 2, ch. 2, 4SSLA 2008, made changes to AS 42.45.110(c) that increased the maximum allowable kilowatt-hour cost for which power cost equalization payments could be calculated from 52.5 cents to \$1.00 per kilowatt hour:

(c) The amount of power cost equalization provided for each [PER] kilowatt-hour under [SUBSECTION] (b) of this section may not exceed 95 percent of the power costs, or the average rate for each [PER] eligible kilowatt-hour sold, whichever is less, as determined by the commission. However,

(1) [DURING THE STATE FISCAL YEAR THAT BEGAN JULY 1, 1999,] the power costs for which power cost equalization are [WERE] paid to an electric utility are [WERE] limited to minimum power costs of more than 12 cents a [PER] kilowatt-hour and less than \$1 a [52.5 CENTS PER] kilowatt-hour;

(2) each year [DURING EACH FOLLOWING STATE FISCAL YEAR], the commission shall adjust the power costs for which power cost equalization may be paid to an electric utility based on the weighted average retail residential rate in Anchorage, Fairbanks, and Juneau; however, the commission may not adjust the power costs under this paragraph to reduce the amount below the lower limit set out in (1) of this subsection; and

Senator Lyman Hoffman
January 28, 2009
Page 2

end June 30, 2009, the standards were relaxed -- made less restrictive. Another provision of that Act, § 3, ch. 2, 4SSLA 2008, effective June 30, 2009, restores the standards to what they were before the temporary adjustment.

The provisions of Senate Bill 88 set aside the provisions of the 2008 Act that would restore the former standards.

Bill section 1 repeals the substantive law provision, sec. 3, ch. 2, 4SSLA 2008, that, if left unamended, would restore the former factors that apply to calculate the amount of power cost equalization payable under that program.

Bill section 3 repeals the related delayed effective date provision, sec. 11, ch. 2, 4SSLA 2008, that, on June 30, 2009, would provide for restoration of the former factors under that power cost equalization formula. This bill section is, in effect, the repeal of an effective date provision that, under the *Manual of Legislative Drafting*, requires that it be separately set out and noticed in the bill title ("providing for an effective date by repealing the effective date of sec. 3, ch. 2, 4SSLA 2008"). *Manual of Legislative Drafting* at pp. 12 - 13. This change affects an effective date in the earlier bill and requires a two-thirds vote in each house for adoption.

Bill section 2 is a contingency provision so that, if Senate Bill 88 is passed late in the session and is substantially delayed in transmittal to the governor, or the governor otherwise fails to act to approve the bill until at or beyond the June 30, 2009, transitional date, the new provisions are made retroactive so that the legislature's intent (to eliminate the scheduled formula calculation change) is fully and seamlessly carried out.

Bill section 4 gives the measure an immediate effective date and requires a two-thirds vote in each house for adoption.

This sectional analysis was prepared in response to a request from Jay Livey.

JBC:lmb
09-007.lmb

(3) the power cost equalization **for each** [PER] kilowatt-hour may be determined for a utility without historical kilowatt-hour sales data by using kilowatt-hours generated.

A related amendment proposed by § 3, ch. 2, 4SSLA 2008, would readjust the maximum allowable, as amended in the last line of AS 42.45.110(c)(1), as shown in the text, from \$1 back to the former rate of 52.5 cents.