

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

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A PERFORMANCE REPORT ON THE  
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT  
BOARD OF PSYCHOLOGIST AND PSYCHOLOGICAL ASSOCIATE EXAMINERS

December 19, 1986

Audit Control Number

08-1270-87-R

Commissioner, Department of  
Commerce and Economic Development

J. Anthony Smith

Deputy Commissioners, Department of  
Commerce and Economic Development

Greg Baker  
Terry Elder

Members of the Board of Psychologist  
and Psychological Associate Examiners

Chairperson  
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# STATE OF ALASKA

AUDIT DIVISION  
POUCH W  
JUNEAU, ALASKA 99811-3300

**THE LEGISLATURE**  
BUDGET AND AUDIT COMMITTEE

December 19, 1986

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Titles 24 and 44 of the  
Alaska Statutes (sunset legislation), the attached report is  
submitted for your review.

A PERFORMANCE REPORT ON THE  
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT  
BOARD OF PSYCHOLOGIST AND PSYCHOLOGICAL ASSOCIATE EXAMINERS

December 19, 1986

Audit Control Number

08-1270-87-R



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

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## PURPOSE OF THE REPORT

In accordance with the intent of Titles 24 and 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Board of Psychologist and Psychological Associate Examiners to determine if the Board has been operating in an efficient and effective manner.

As required by legislative intent, this report shall be considered during the legislative oversight function in determining whether the Board of Psychologist and Psychological Associate Examiners should be reestablished. The law currently specifies that this Board will terminate on June 30, 1987.

The major areas of our examination were the licensing, examination, administration, complaint, and affirmative action functions of the Board. We reviewed and evaluated the following:

1. Applicable statutes and regulations.
2. Tests of files and documents of licensees.
3. Interviews with the licensing examiner.
4. Complaints filed with the Division of Occupational Licensing, Equal Employment Opportunity Office, Attorney General's Office, and the Ombudsman Office.
5. Discussions with Board members.
6. Minutes of Board meetings and Division correspondence files.
7. Attorney General's Opinions applicable to professional boards.

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## ORGANIZATION AND FUNCTION

The Board of Psychologist and Psychological Associate Examiners (PPAE) was established under the provisions of Title 8, Chapter 86 of the Alaska Statutes. The Board consists of four licensed psychologists and one public member appointed by the Governor and approved by the Legislature.

The Board regulates licensed psychologists and psychological associates in the State. A psychologist is licensed to use psychological principles, methods, and procedures for the treatment of emotional and mental disorders. A psychological associate is licensed to perform psychological services under the supervision of a licensed psychologist. Legislation recently passed (Chapter 63, SLA 1986) allows a psychological associate who has completed at least five years of licensed practice to petition the Board for certification to practice without supervision.

The Board's duties are basically the following:

1. Examining and issuing licenses to qualified applicants.
2. Establishing or amending rules and regulations necessary and desirable to enforce State statutes.
3. Holding hearings in order to revoke or suspend the license of a person violating the psychologist and psychological associate statutes and regulations.

An applicant may be licensed by passing an exam given by the Board or by credentials. For credentials, an applicant must provide proof of licensure by another authority with equal licensing requirements.

In order to qualify for licensure as a psychologist by examination, an applicant must pass a written examination, have a doctorate degree, and one year of experience. The examination is composed of two parts: an objective national examination composed by the Professional Examination Service and an essay examination composed by the Board.

Psychological associates may qualify for the examination if they have three years supervised experience after obtaining a Master's degree.

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## REPORT CONCLUSION

### Policy Issues

This report contains policy issues raised as a result of our evaluation of various Board practices. The final policy decisions affecting these practices are not within the scope of this report but require legislative consideration. In debating these issues, the oversight committees should take into consideration the findings and recommendation presented in this report so the potential impact of policy changes can be evaluated.

### Report Conclusion

In our opinion, the Board of Psychologist and Psychological Associate Examiners should be reestablished. The regulation and licensing of qualified professionals is necessary to protect the public's health, safety, and welfare. The Board provides this service by establishing minimum educational and experience requirements that provide reasonable assurance that persons licensed are qualified. Also, assurances that those licensed act in a competent manner is provided by active investigation of complaints and revocation or suspension of licenses when appropriate.

However, the following finding describes an area where weaknesses or conflicts exist. We have made a recommendation which, if implemented, will improve the efficiency and effectiveness of the Board.

The Board should adhere to regulations for denying applicants the right to take the psychology examination. Two applicants were improperly denied the right to take the psychology examination.

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## FINDINGS AND RECOMMENDATION

### Recommendation No. 1

The Board should adhere to regulations concerning Board powers to deny applicants from licensure by examination.

The Board inappropriately denied a person the right to take the psychology exam based on the allegation of unethical conduct. The Attorney General's Office determined that the Board's action was not authorized under existing statute or regulation.

12 AAC 60.055 permits the Board to deny an applicant for licensure if the applicant has . . .

- (1) been found guilty of incompetence by another state or jurisdiction;
- (2) violate the ethical standards for providers of psychological services as established by another state agency or jurisdiction;
- (3) misrepresented his or her qualifications to the board in any way; or
- (4) been found to be practicing psychological services without a license.

In this instance there was no actual finding or decision by another State agency or jurisdiction.

Similarly, another applicant for licensure by examination was not allowed to take the examination pending the outcome of an investigation by the Division of Occupational Licensing. Board of Psychology regulations do not prohibit a person from taking the psychology exam merely based on an investigation. According to the Licensing Examiner, the Board tabled their decision to act on the application without even reviewing the applicant's file.

Alaska Statute 08.86.070 provides for the Board to impose disciplinary sanctions. Those disciplinary sanctions apply to licensed psychologists and psychological associates. The Board does not have the authority to deny applicants the right to take the psychology examination as long as other minimum requirements are met. Denial of that right cannot be based on mere allegations or outstanding investigations.

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## ANALYSIS OF PUBLIC NEED

### Limited Analysis

The following analyses of board activities relate to the public need factors defined in the "sunset" law. These analyses are not intended to be comprehensive, but address those areas we were able to cover within the scope of our review.

- I. The extent to which the board, commission, or program has operated in the public interest.
  - A. The Board has promulgated regulations concerning continuing education requirements. In addition, public hearings have been held to consider regulation changes regarding course requirements for graduate programs in psychology, criteria for practicing psychology without supervision as a psychological associate, and the qualifications for persons performing psychological-related activities that are exempt from licensure. The public is notified about upcoming examinations and meetings and is invited to provide input at Board meetings.
  - B. The Board has developed goals and objectives. Some of the goals the Board achieved in 1986 includes:
    - (1) Reviewing applications for licensure and examination.
    - (2) Conducting examinations twice a year.
    - (3) Reviewing investigative reports.
    - (4) Considering regulatory changes to psychology regulations.
  - C. The Board prepared forms to document continuing education by licensed psychologists.
- II. The extent to which the operation of the board, commission, or agency program has been impeded or enhanced by existing statutes, procedures, and practices which it has adopted, and any other matter, including budgetary, resource, and personnel matters.
  - A. The Board needs to clarify AS 08.86.180 which defines the Board's jurisdiction over the practice of psychology. The statutes which govern the Board prohibit any person, unless they are licensed or exempt, to practice psychology in the State.

Alaska Statute 08.86.130(b)(1) specifically exempts persons from licensure that are employed by a governmental unit, educational institution, or private agency who may be required to engage in some phase of work "of a psychological nature" if the employer maintains "appropriate supervision" of the psychological activities and professional conduct. What constitutes "appropriate supervision" and what is considered activity "of a psychological nature" has not been defined in the statutes.

The lack of specific statutory guidelines has caused confusion among other professions as to whether their practice is covered by Title 8, Chapter 86 of the Alaska Statutes.

- B. The Division of Occupational Licensing (OL) does not have an allocation plan for indirect cost; for each individual board. They have recently implemented procedures to recoup costs for all boards under their purview.
- C. Legislation was recently passed (Ch. 63, SLA 86) that requires the Board to submit proposed regulations establishing the requirements for graduate programs in psychology under AS 08.86.130 (psychologists licensing requirements) and establishing the criteria for practice without supervision under AS 08.86.164 (e) (as a psychological associate). Part of the proposed regulations requires psychological associates (PAs) to obtain 60 hours of graduate program study, including a Master's degree, in order to practice without supervision after five years of supervised practice.

Currently, PAs are required to have three years of supervised experience prior to getting their license and an additional five years of supervised experience after receiving their license. Eight years of experience combined with 60 hours of graduate program study seems overly restrictive in order for PAs to practice without supervision. Based on public response to the draft regulations, it may not be in the public's best interest to require this additional amount of education.

III. The extent to which the board, commission, or agency has recommended statutory changes which are generally of benefit to the public interest.

- A. The Board has proposed statutory changes for the temporary licensure of applicants. The legislation would change this process from a licensing process

to a permit process and allow applicants for licensure by credentials to be issued a temporary permit provided they meet criteria similar to licensing requirements.

- B. The Board has proposed statutory changes to clarify exactly when confidentiality may be waived if a client threatens serious harm to her/himself or to another person, or to property in such a way that a person's life might be in danger. In addition, the Board has proposed legislation to clarify under what conditions the board may impose disciplinary sanctions against a psychologist for lewd conduct.

IV. The extent to which the board, commission, or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service which it has provided.

- A. The public is invited to attend Board meetings. Notices of meetings and examinations are published in at least 3 major newspapers and a time for public comment is reserved at Board meetings.

V. The extent to which the board, commission, or agency has encouraged public participation in the making of its regulations and decisions.

- A. Public notices of proposed regulations are published in major newspapers. Public comment to proposed regulations, both written and oral, are considered at Board meetings.

VI. The efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the Office of the Ombudsman have been processed and resolved.

- A. Most complaints filed with OL allege unlicensed activity. For the most part, these complaints are investigated and resolved in a timely manner. Investigations could be hampered because statutory language concerning licensing exemptions to the practice of psychology is difficult to interpret (see II. A.). Based on records at OL, there were 6 complaints filed at OL in FY 86, 20 filed in FY 85, and 19 filed in FY 84. Currently, only one investigative case is outstanding.

- B. Review of recently closed Ombudsman's case files showed no significant complaints.

- VII. The extent to which a board or commission which regulated entry into an occupation or profession has presented qualified applicants to serve the public.
- A. As of June 30, 1986, the Board regulated 94 psychologists and 14 psychological associates. Fifty-three new licenses have been issued since FY 82.
  - B. Due to problems with the exemption statute, it is difficult to tell where the Board's jurisdiction begins and where it ends.
- VIII. The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission, or agency to its own activities and the area of activity or interest.
- A. Psychology and psychological associate applications require unnecessary information such as an applicant's age, birth place, and picture.
- IX. The extent to which statutory, regulatory, budgeting, or other changes are necessary to enable the agency, board, or commission to better serve the interests of the public and to comply with the factors enumerated in this subsection.
- A. Please refer to the previous sections and Findings and Recommendation.

APPENDIXES

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APPENDIX A  
BOARD OF PSYCHOLOGIST AND PSYCHOLOGICAL ASSOCIATE EXAMINERS  
REVENUES COMPARED WITH EXPENDITURES  
 For the Fiscal Year Ended June 30, 1986  
 (Unaudited)  
 (Note 1)

Average Revenue (See Schedule 1 and Note 2)	\$ 8,808.00
Expenditures (See Note 3)	<u>22,045.28</u>
Excess of Revenues over Expenditures	<u><u>\$(13,237.28)</u></u>

Schedule 1  
Types of Revenues

Revenues	Amount Prior to 11/20/86	Amount Effective 11/20/86	Collection Time
Application Fee	\$ 25	\$ 20	With submittal of application
Examination Fee	\$125	\$ 90	With submittal of application
Credential Review Fee	\$125	\$ 50	With submittal of application
Initial License Fee	\$200	\$200	With submittal of application
License Renewal	\$200	\$200	Every Four Years

Note 1

This revenue/expenditure comparison was prepared from available records and discussions with Occupational Licensing personnel. The records were not audited by us and, accordingly, we do not express an opinion on the Board's Statement of Revenues Compared with Expenditures.

Note 2

A significant portion of revenues is composed of license renewal fees. Licenses are renewed every four years and the last renewal date was June 30, 1985. Because of the renewals, revenues vary substantially every fourth year. Therefore, we averaged revenues collected in fiscal years 83, 84, 85 and 86 in order to obtain a representative amount of average annual revenues collected.

Note 3

Expenditures consist of direct costs resulting from Board activities, which includes travel, per diem, and miscellaneous contractual expenditures incurred by the Board members and the Board's licensing examiner. This amount does not include indirect administrative expenditures of the Division of Occupational Licensing or expenditures for efforts of other departments assisting the Board.

APPENDIX B  
BOARD OF PSYCHOLOGIST AND PSYCHOLOGICAL  
ASSOCIATE EXAMINERS  
EXAMINATION STATISTICS

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Failed at Least one Section	4	4	4	2	3
Passed	<u>9</u>	<u>5</u>	<u>3</u>	<u>8</u>	<u>4</u>
Total	<u>13</u>	<u>9</u>	<u>7</u>	<u>10</u>	<u>7</u>

APPENDIX C  
BOARD OF PSYCHOLOGIST AND PSYCHOLOGICAL  
ASSOCIATE EXAMINERS  
ADMINISTRATIVE STATISTICS

Schedule 1  
Number of Licenses

	<u>As of June 30, 1986</u>
Licensed Psychologists	94
Licensed Psychological Associates	<u>14</u>
Total	<u>108</u>

Schedule 2  
Licenses Issued by Fiscal Year

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Psychologists	7	10	7	12	9
Psychological Associates	<u>2</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>
Total	<u>9</u>	<u>12</u>	<u>8</u>	<u>14</u>	<u>10</u>

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**DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT**

POUCH D  
JUNEAU, ALASKA 99811  
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

February 6, 1987

Mr. Gerald Wilkerson  
Legislative Auditor  
Division of Legislative Audit  
P.O. Box W  
Juneau, AK 99811

FEB 17 1987


Dear Mr. Wilkerson:

The department agrees that the Board of Psychologist and Psychological Associate Examiners should be continued and concurs with the recommendation that the board should adhere to regulations concerning the board powers to deny applicants from licensure by examination. It should be noted, however, that, although the board initially inappropriately denied an applicant from licensure by examination, an attorney general's opinion was sought prior to the examination and the candidate was permitted to take the examination on schedule.

The issue was whether or not the board has the power to deny a license by examination or licensure by credentials based on allegations of unethical conduct or pending the results of ongoing investigations. Under its current regulations, the board does not have this authority. Since the board has the responsibility to ensure only qualified, competent individuals receive licenses to practice, the department would recommend that the board amend 12 AAC 60.055 to add another section: "(5) is not the subject of an unresolved complaint, review procedure or disciplinary proceeding." There is a current applicant for licensure who has been accused of several counts of sexual misconduct in another state. Under the existing regulation, the board is required to license the applicant. The department believes the public safety will be in danger if this applicant is licensed prior to the allegation being substantiated. Several regulatory boards have similar provisions in statute or regulation.

Thank you again for the opportunity to comment on your findings.

Sincerely,

  
J. Anthony Smith  
Commissioner

JAS/KM/ssC19  
020687b

# STATE OF ALASKA

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF OCCUPATIONAL LICENSING

STEVE COWPER, GOVERNOR

P. O. BOX D  
JUNEAU, ALASKA 99811-0800  
PHONE: (907) 465-2534

February 17, 1987

Mr. Gerald L. Wilkerson  
Legislative Auditor  
Legislative Audit Division  
P.O. Box W  
Juneau, AK 99811



Dear Mr. Wilkerson:

Re: Audit Control #08-1270-87R

We received the report of the Legislative Audit Division and, with the exception of corrections noted below, we will continue to work on areas set forth in the report. These areas are already priorities for us.

With reference to recommendation I, the board approved the application pending a response from the Attorney General. An opinion was received and the person in question did take the examination.

With reference to recommendation II(c) in the "Analysis of Public Need" regarding education requirements for psychological associates, the board decided on requiring 60 credit hours for program study because, as it now stands, the five-year period of experience can be for any number of hours, and supervision must only be one time per month by telephone and one face-to-face meeting quarterly. This is not adequate protection for the public. For example, there is no protection against a person who sees three clients per week for a year (three hours) and has three face-to-face supervision sessions each year. Under current regulations, the psychological associate is only required to have one year of graduate education before going into full-time supervised practice. We believe that the combination of education and experience is inadequate and should be increased.

Sincerely,

*Linda Olsen Webber*  
by *UET*

Linda Olsen Webber  
Board of Psychologist and  
Psychological Associate Examiners

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21787c

# STATE OF ALASKA

AUDIT DIVISION  
POUCH W  
JUNEAU, ALASKA 99811-3300

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

February 23, 1987

Members of the Legislative Budget  
and Audit Committee:

We have reviewed the Board's response to the preliminary audit report on the Performance Report on the Department of Commerce and Economic Development, Board of Psychologist and Psychological Associate Examiners. Our comments follow.

The Board has proposed regulations requiring a psychological associate (PA) to have 60 credit hours of program study after five years of supervised experience in order to practice unsupervised. In the Board's opinion, 60 credit hours of study is necessary to insure adequate public protection. The Board gave an example of a PA practicing but only seeing three clients per week for a year (three hours) and has three face-to-face supervision sessions each year. We believe the 60 credit hour educational requirement is excessive.

Currently, a PA is required to have a Master's degree (24 credit hours) and three years of weekly supervision and pass a national examination in order to be licensed as a PA. Legislation amending AS 08.86.164 recently passed that allows a PA who has completed at least five years of licensed practice to petition the Board for certification to practice without supervision (monthly contact and quarterly face-to-face meetings). The Board is required to grant the petition if the PA satisfies the criteria established by the Board by regulation. Proposed regulations include requiring the PA to have documented at least five years of supervised practice which included at least an average of 1,500 hours of supervised practice per year. This would prevent a non-experienced PA from being certified to practice unsupervised.

The new legislation also requires the Board to propose regulations defining the academic programs that are required to be included in obtaining the Master's degree. Testimony was given by the Division of Occupational Licensing during the legislative hearings. At the hearings it was stated that the main purpose of the bill was to define an acceptable masters program through regulation so that the Board could agree that a PA can practice psychology after a certain amount of time. Therefore, the Board's definition of programs to be included in a PA's Master's degree along with supervised experience should be adequate to protect the public.

In addition to supervised experience, the Board also requires 20 hours per year of continuing education in order for a PA to renew their license to practice. We question whether an additional 36 credit hours of education will better protect the public from a PA practicing unsupervised considering they have eight years of supervised experience and meet continuing education requirements.



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

HB

182

# HOUSE COMMITTEE REPORT

(7)

Date referred: 3/16/87

FURTHER REFERRALS: Resources  
Finance

DATE: \_\_\_\_\_

The Labor & Commerce Committee has considered HB 182

"An Act relating to the power cost equalization program.

**RECOMMENDS:**

- replace with CSHB 182  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(s):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

Dave Douley

\_\_\_\_\_

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**SIGNING OTHER RECOMMENDATIONS:**

W.C. Fouché DO NOT PASS

Ellis no rec.

Steve Korman no rec

Chris Hansen no rec

Walt Furness none

Sam Williams NO REC

Dave Douley  
Chairman's signature

*final version*

w01407hB

Original sponsor: Rules/Governor

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IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

CS FOR HOUSE BILL NO. 182 (L&C)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the power cost equalization program."

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

\* Section 1. FINDINGS. The legislature finds that

(1) the power cost equalization program has substantially improved the health, safety, and quality of life in rural parts of the state;

(2) the cost of electricity in rural parts of the state is substantially higher than the cost in the rest of the state;

(3) rural parts of the state rely less on a cash economy and therefore rural residents may have more difficulty paying cash for high energy costs;

(4) access to a certain level of electric power at affordable rates is a basic right and necessity in the state;

(5) the power cost equalization program has allowed many more rural state residents access to electric power at affordable rates than before the program was available;

(6) most electricity in rural parts of the state is generated by diesel generators that operate efficiently only at full capacity;

(7) an electric utility needs a certain demand for power to operate efficiently and the power cost equalization program has helped create this "critical mass" of demand in rural areas of the state;

(8) by providing a stable demand, the power cost equalization program has enabled rural electric utilities to substantially improve the efficiency of their operations through energy conservation, more efficient

1 generation, and improvements in end-use technology;

2 (9) the average household use of energy has not increased under  
3 the power cost equalization program, although the number of new households  
4 hooked up to electricity has increased;

5 (10) efficient generation and use of electrical power in rural  
6 parts of the state is dependent on power usage by residential, commercial,  
7 and community facility customers; representatives of rural electric util-  
8 ities believe that elimination or substantial curtailment of the power cost  
9 equalization subsidy for commercial users would force commercial users to  
10 operate their own gasoline generators to provide their own electric power  
11 and would therefore reduce the "critical mass" necessary for the electric  
12 utility to operate economically;

13 (11) although the power cost equalization program has been suc-  
14 cessful in providing electricity at affordable rates to consumers, without  
15 leading to waste of energy resources, the current fiscal limitations in the  
16 state require a reduction in many state programs and services, including  
17 the power cost equalization program;

18 (12) if a reduction to the power cost equalization program is  
19 necessary, it is better to accomplish the reduction by reducing the amount  
20 of subsidy for each consumer and continuing to provide service under the  
21 program to the largest number of consumers possible.

22 \* Sec. 2. AS 44.83.162(c) is amended to read:

23 (c) An eligible electric utility is entitled to receive power  
24 cost equalization for actual consumption to the extent allowed under  
25 (e) of this section for sales of power to

26 (1) [FOR SALES OF POWER TO] local community facilities,  
27 calculated in the aggregate for each community served by the electric  
28 utility [, FOR ACTUAL CONSUMPTION OF NOT MORE THAN 70 KILOWATT-HOURS  
29 PER MONTH FOR EACH RESIDENT OF THE COMMUNITY]; and

1           (2) [FOR ACTUAL CONSUMPTION OF NOT MORE THAN 750 KILOWATT-  
2 HOURS PER MONTH SOLD TO] each customer in all classes served by the  
3 electric utility except to customers of the utility under (1) of this  
4 subsection.

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

6           (e) An electric utility whose customers receive power cost  
7 equalization under this section shall set out in its tariff the rates  
8 without the power cost equalization and the amount of power cost  
9 equalization per kilowatt-hour sold. The rate charged to the customer  
10 shall be the difference between the two amounts. Power cost equaliza-  
11 tion paid under this section shall be used to reduce the cost of all  
12 power sold to local community facilities, in the aggregate, to the  
13 extent of 50 [70] kilowatt-hours per month per resident of the commu-  
14 nity, and, in fiscal year 1988, to reduce the cost of the first 500  
15 [750] kilowatt-hours per customer per month for all other classes  
16 served by the electric utility. The subsidy for those classes shall  
17 be reduced each year, beginning in fiscal year 1989, by 50 kilowatt-  
18 hours per customer per month until the maximum subsidy is based on the  
19 first 250 kilowatt-hours per customer per month for those classes.  
20 Access to at least 250 kilowatt-hours per month at an affordable rate  
21 is a basic right for each customer.

22 \* Sec. 4. AS 44.83.162(j) is amended to read:

23           (j) The authority shall review the report required under (i)(1)  
24 of this section and may submit the report to the commission for addi-  
25 tional review before payment. After review and approval of the report  
26 by the authority, the authority shall, subject to appropriation, pay  
27 to each eligible electric utility an amount equal to the power cost  
28 equalization per kilowatt-hour determined by the commission under (b)  
29 and (d) of this section, multiplied by the number of kilowatt-hours

1 eligible for power cost equalization that were sold during the preced-  
2 ing month to all customers of the utility in accordance with (c) of  
3 this section. Payment shall be made by the authority within 30 days  
4 after receipt from the utility of the report required under (i) of  
5 this section. However, if there is a dispute between the authority  
6 and the utility relating to the payment, the authority shall submit  
7 the report to the commission for review within 30 days after its  
8 receipt by the authority. When a report is submitted to the commis-  
9 sion for review under this section, payment shall be made by the  
10 authority within 30 days after submission, based on a commission  
11 determination. If the authority determines that appropriations are  
12 insufficient for payment in full, the amount paid to each electric  
13 utility must fully fund, in descending order, residential customers,  
14 community facilities, and commercial facilities until the appropria-  
15 tion is fully spent. If the appropriation is insufficient for payment  
16 in full to a class of eligible customers, the amount paid to customers  
17 in that class must be [IS] reduced on a pro rata basis.

18 \* Sec. 5. AS 44.83.162(k) is amended to read:

19 (k) If an electric utility receives power cost equalization  
20 under this section, the utility shall either

21 (1) give the following notice to its electric service  
22 customers eligible under this program for each period for which the  
23 payment is received:

24 NOTICE TO CUSTOMER

25 For the current billing period the utility will be paid under the  
26 State of Alaska's power cost equalization program (AS 44.83.162) an  
27 amount to assist the utility and its customers in reducing the high  
28 cost of generation of electric energy. For electric energy consumed  
29 by residential customers and private commercial customers, this state

1 payment applies only to the first (insert appropriate amount) kilo-  
 2 watt-hours per month used by each customer. For electric energy sol-  
 3 to local community facilities, this state payment applies to the tota  
 4 number of kilowatt-hours used each month by all such facilities in th  
 5 community, up to a maximum of 50 kilowatt-hours, multiplied by th  
 6 number of residents in the community.

7 Your total electrical service cost \$ . . . . .  
 8 Less state equalization \$ . . . . .  
 9 Your charge \$ . . . . .  
 10 or

11 (2) give to its electric service customers a notice ap  
 12 proved by the authority, which notice provides electric service cus  
 13 tomers the same information provided by the notice in (1) of thi  
 14 subsection.

15 \* Sec. 6. AS 44.83.162(o)(2) is amended to read:

16 (2) "community facility" means a facility essential to th  
 17 public health, safety, and welfare of the community, and includes  
 18 water and sewer facility, public outdoor lighting including lighti  
 19 for a community-owned airport strip or harbor, a community washeter  
 20 or freezer, a community volunteer firehall, a community health clini  
 21 a village public safety office, a [,] charitable educational facilit  
 22 or a community building whose operations are not paid for by t  
 23 state, the federal government, or private commercial interests;

24 \* Sec. 7. AS 44.83.163(a) is amended to read:

25 (a) The power cost equalization per kilowatt-hour determin  
 26 under AS 44.83.162 payable to an electric utility that is subject  
 27 rate regulation under AS 42.05 may be adjusted by the commission if  
 28 (1) an increase or decrease in the electric utility's co  
 29 of fuel has resulted in the approval of a fuel cost rate adjustment

1 the commission;

2 (2) a permanent or interim rate increase or decrease has  
3 been approved by the commission, thereby establishing a higher or  
4 lower power cost; or

5 (3) an adjustment is required after the authority has  
6 discovered discrepancies in its review of monthly data submitted by  
7 the electric utility [; OR

8 (4) THE AUTHORITY DETERMINES THAT APPROPRIATIONS ARE INSUF-  
9 FICIENT TO FINANCE FULL PAYMENTS TO ELIGIBLE ELECTRIC UTILITIES].

w01407hB  
Cramer  
4/9/87

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2 CS FOR HOUSE BILL NO. 182 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the power cost equalization  
7 program."

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

9 \* Section 1. FINDINGS. The legislature finds that

10 (1) the power cost equalization program has substantially im-  
11 proved the health, safety, and quality of life in rural parts of the state;

12 (2) the cost of electricity in rural parts of the state is  
13 substantially higher than the cost in the rest of the state;

14 (3) rural parts of the state rely less on a cash economy and  
15 therefore rural residents may have more difficulty paying cash for high  
16 energy costs;

17 (4) access to a certain level of electric power at affordable  
18 rates is a basic right and necessity in the state;

19 (5) the power cost equalization program has allowed many more  
20 rural state residents access to electric power at affordable rates than  
21 before the program was available;

22 (6) most electricity in rural parts of the state is generated by  
23 diesel generators that operate efficiently only at full capacity;

24 (7) an electric utility needs a certain demand for power to  
25 operate efficiently and the power cost equalization program has helped  
26 create this "critical mass" of demand in rural areas of the state;

27 (8) by providing a stable demand, the power cost equalization  
28 program has enabled rural electric utilities to substantially improve the  
29 efficiency of their operations through energy conservation, more efficient

1 generation, and improvements in end-use technology;

2 (9) the average household use of energy has not increased under  
3 the power cost equalization program, although the number of new households  
4 hooked up to electricity has increased;

5 (10) efficient generation and use of electrical power in rural  
6 parts of the state is dependent on power usage by residential, commercial,  
7 and community facility customers; representatives of rural electric util-  
8 ities believe that elimination or substantial curtailment of the power cost  
9 equalization subsidy for commercial users would force commercial users to  
10 operate their own gasoline generators to provide their own electric power  
11 and would therefore reduce the "critical mass" necessary for the electric  
12 utility to operate economically;

13 (11) although the power cost equalization program has been suc-  
14 cessful in providing electricity at affordable rates to consumers, without  
15 leading to waste of energy resources, the current fiscal limitations in the  
16 state require a reduction in many state programs and services, including  
17 the power cost equalization program;

18 (12) if a reduction to the power cost equalization program is  
19 necessary, it is better to accomplish the reduction by reducing the amount  
20 of subsidy for each consumer and continuing to provide service under the  
21 program to the largest number of consumers possible.

22 \* Sec. 2. AS 44.83.162(c) is amended to read:

23 (c) An eligible electric utility is entitled to receive power  
24 cost equalization for actual consumption to the extent allowed under  
25 (e) of this section for sales of power to

26 (1) [FOR SALES OF POWER TO] local community facilities,  
27 calculated in the aggregate for each community served by the electric  
28 utility [, FOR ACTUAL CONSUMPTION OF NOT MORE THAN 70 KILOWATT-HOURS  
29 PER MONTH FOR EACH RESIDENT OF THE COMMUNITY]; and

1 (2) [FOR ACTUAL CONSUMPTION OF NOT MORE THAN 750 KILOWATT-  
2 HOURS PER MONTH SOLD TO] each customer in all classes served by the  
3 electric utility except to customers of the utility under (1) of this  
4 subsection.

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

6 (e) An electric utility whose customers receive power cost  
7 equalization under this section shall set out in its tariff the rates  
8 without the power cost equalization and the amount of power cost  
9 equalization per kilowatt-hour sold. The rate charged to the customer  
10 shall be the difference between the two amounts. Power cost equaliza-  
11 tion paid under this section shall be used to reduce the cost of all  
12 power sold to local community facilities, in the aggregate, to the  
13 extent of 50 [70] kilowatt-hours per month per resident of the commu-  
14 nity, and, in fiscal year 1988, to reduce the cost of the first 500  
15 [750] kilowatt-hours per customer per month for all other classes  
16 served by the electric utility. The subsidy for those classes shall  
17 be reduced each year, beginning in fiscal year 1989, by 50 kilowatt-  
18 hours per customer per month until the maximum subsidy is based on the  
19 first 250 kilowatt-hours per customer per month for those classes.  
20 Access to at least 250 kilowatt-hours per month at an affordable rate  
21 is a basic right for each customer.

22 \* Sec. 4. AS 44.83.162(j) is amended to read:

23 (j) The authority shall review the report required under (i)(1)  
24 of this section and may submit the report to the commission for addi-  
25 tional review before payment. After review and approval of the report  
26 by the authority, the authority shall, subject to appropriation, pay  
27 to each eligible electric utility an amount equal to the power cost  
28 equalization per kilowatt-hour determined by the commission under (b)  
29 and (d) of this section, multiplied by the number of kilowatt-hours

1 eligible for power cost equalization that were sold during the preced-  
 2 ing month to all customers of the utility in accordance with (c) of  
 3 this section. Payment shall be made by the authority within 30 days  
 4 after receipt from the utility of the report required under (i) of  
 5 this section. However, if there is a dispute between the authority  
 6 and the utility relating to the payment, the authority shall submit  
 7 the report to the commission for review within 30 days after its  
 8 receipt by the authority. When a report is submitted to the commis-  
 9 sion for review under this section, payment shall be made by the  
 10 authority within 30 days after submission, based on a commission  
 11 determination. If the commission determines that appropriations are  
 12 insufficient for payment in full, the amount paid to each electric  
 13 utility must fully fund, in descending order, residential customers,  
 14 community facilities, and commercial facilities until the appropria-  
 15 tion is fully spent. If the appropriation is insufficient for payment  
 16 in full to a class of eligible customers, the amount paid to customers  
 17 in that class must be [IS] reduced on a pro rata basis.

18 \* Sec. 5. AS 44.83.162(k) is amended to read:

19 (k) If an electric utility receives power cost equalization  
 20 under this section, the utility shall either

21 (1) give the following notice to its electric service  
 22 customers eligible under this program for each period for which the  
 23 payment is received:

24 NOTICE TO CUSTOMER

25 For the current billing period the utility will be paid under the  
 26 State of Alaska's power cost equalization program (AS 44.83.162) an  
 27 amount to assist the utility and its customers in reducing the high  
 28 cost of generation of electric energy. For electric energy consumed  
 29 by residential customers and private commercial customers, this state

1 payment applies only to the first (insert appropriate amount) kilo-  
 2 watt-hours per month used by each customer. For electric energy sold  
 3 to local community facilities, this state payment applies to the total  
 4 number of kilowatt-hours used each month by all such facilities in the  
 5 community, up to a maximum of 50 kilowatt-hours, multiplied by the  
 6 number of residents in the community.

7 Your total electrical service cost \$ . . . . .  
 8 Less state equalization \$ . . . . .  
 9 Your charge \$ . . . . . ;

10 or

11 (2) give to its electric service customers a notice ap-  
 12 proved by the authority, which notice provides electric service cus-  
 13 tomers the same information provided by the notice in (1) of this  
 14 subsection.

15 \* Sec. 6. AS 44.83.162(o)(2) is amended to read:

16 (2) "community facility" means a facility essential to the  
 17 public health, safety, and welfare of the community, and includes a  
 18 water and sewer facility, public outdoor lighting including lighting  
 19 for a community-owned airport strip or harbor, a community washeteria  
 20 or freezer, a community volunteer firehall, a community health clinic,  
 21 a village public safety office, a [,] charitable educational facility,  
 22 or a community building whose operations are not paid for by the  
 23 state, the federal government, or private commercial interests;

24 \* Sec. 7. AS 44.83.163(a) is amended to read:

25 (a) The power cost equalization per kilowatt-hour determined  
 26 under AS 44.83.162 payable to an electric utility that is subject to  
 27 rate regulation under AS 42.05 may be adjusted by the commission if

28 (1) an increase or decrease in the electric utility's cost  
 29 of fuel has resulted in the approval of a fuel cost rate adjustment by

1 the commission;

2 (2) a permanent or interim rate increase or decrease has  
3 been approved by the commission, thereby establishing a higher or  
4 lower power cost; or

5 (3) an adjustment is required after the authority has  
6 discovered discrepancies in its review of monthly data submitted by  
7 the electric utility [; OR

8 (4) THE AUTHORITY DETERMINES THAT APPROPRIATIONS ARE INSUF-  
9 FICIENT TO FINANCE FULL PAYMENTS TO ELIGIBLE ELECTRIC UTILITIES].  
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STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

HL+C

4-9-87

2:00 p.m.

## STATE OF ALASKA 1987 LEGISLATIVE SESSION FISCAL NOTE

Revision Date: April 9, 1987

**REQUEST**

Bill/Resolution No.: CASHB 182 (L & C)  
 Title: An Act Relating to the Power  
Cost Equalization Program  
 Sponsor: Governor Steve Cowder  
 Requestor: \_\_\_\_\_  
 Date of Request: \_\_\_\_\_

**FISCAL DETAIL**

Agency Affected: Alaska Power Authority  
 BRU: Department of Commerce & Economic  
Development  
 Components: Power Cost Equalization  
Program (PCEP)

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	0	(3089.0)	(4496.7)	(5470.4)	(6433.5)	(7600.7)
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	(3089.0)	(4496.7)	(5470.4)	(6433.5)	(7600.7)

CAPITAL						
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REVENUE						
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**FUNDING : (Thousands of Dollars)**

GENERAL FUND	0	(3089.0)	(4496.7)	(5470.4)	(6433.5)	(7600.7)
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	0	(3089.0)	(4496.7)	(5470.4)	(6433.5)	(7600.7)

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

The proposed legislation would reduce the funding requirements of the Power Cost Equalization Program through incremental restrictions on eligible consumption levels (See attached schedule for details).

Prepared by: Gloria Manni, Director  
 Division: Account. & Admin., Alaska Power Authority

Phone: 261-7210  
 Date: April 10, 1987

Approved by Exec: Dir.: Robert E. LeResche  
 Agency: Alaska Power Authority

Date: \_\_\_\_\_

**Distribution (by Agency preparing fiscal note):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

ALASKA POWER AUTHORITY  
 POWER COST EQUALIZATION PROGRAM  
 PROJECTED PROGRAM REQUIREMENT BY FISCAL YEAR  
 RESULTING FROM PROGRAM CHANGES PROPOSED IN CSHB 182

	<u>Customers All Classes</u>	<u>Community Facilities</u>	<u>Total Subsidy</u>	<u>Admin Costs</u>	<u>Total Program Requirement</u>	<u>Program Requirements (Reduction)</u>	
						<u>%</u>	<u>\$</u>
A. FY88 Projected Program Requirements Under Existing Legislation (1):	\$ 16,360.2	\$ 3,591.3	\$ 19,951.5	\$ 137.3	\$ 20,088.8	0	0
Projected Program Requirement Under CSHB 182 (2):							
FY88	13,503.9	3,358.6	16,862.5	137.3	16,999.8	(15.4)	(3,089.0)
FY89	12,096.2	3,358.6	15,454.8	137.3	15,592.1	(22.4)	(4,496.7)
FY90	11,122.5	3,358.6	14,481.1	137.3	14,618.4	(27.2)	(5,470.4)
FY91	10,159.4	3,358.6	13,518.0	137.3	13,655.3	(32.0)	(6,433.5)
FY92	8,992.2	3,358.6	12,350.8	137.3	12,488.1	(37.8)	(7,600.7)

B. Power Cost Equalization Program Level of Subsidy

1. Customers: 750 kwh x mo  
 Community Facilities: 70 kwh x mo x resident
2. Customers:
  - a. FY88, 500 kwh x mo
  - b. Beginning FY89 reduced by 50 kwh x mo each fiscal year  
 until the maximum subsidy is based on 250 kwh X mo
 Community Facilities: 50 kwh x mo x resident

RCV BY: XEROX TELECOPIER 7010 : 4-11-87 12:57PM :  
 SENT BY: A. P. A. : 4-11-87 : 11:58 :  
 9075618584-  
 9074653585: # 3  
 9074653585: # 3

**STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE**

No. 1

Bill Version: HB 182  
Publish Date: HOUSE 3/16/87

**REQUEST**

Bill/Resolution No. : \_\_\_\_\_  
 Title : An Act Related to the Power  
Cost Equalization Program  
 \_\_\_\_\_  
 Sponsor : Governor Steve Cowper  
 Requestor : \_\_\_\_\_  
 Date of Request : \_\_\_\_\_

**FISCAL DETAIL**

Agency Affected : Alaska Power Authority  
 BRU : 08-08-24-09-00  
 \_\_\_\_\_  
 Components : Power Cost Equalization  
Program  
 \_\_\_\_\_

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)
GRANTS, CLAIMS						
MISCELLANEOUS	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)
<b>TOTAL OPERATING</b>						

<b>CAPITAL</b>						
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<b>REVENUE</b>						
----------------	--	--	--	--	--	--

**FUNDING : (Thousands of Dollars)**

GENERAL FUND	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

The legislation would reduce the funding requirements of the Power Cost Equalization Program in FY 88 by an estimated \$5,799.7 through restrictions on eligible consumption levels and customers. This reduction is already included in the Governor's Budget. Cost savings in FY 89-92 would probably be larger than in FY 88, but are difficult to estimate accurately; therefore, the FY 88 estimate is used for each of these years. (See attached schedule for detail.)

Prepared by: Gloria Manni, Director Phone: 261-7210  
 Division: Accounting & Administration, APA Date: 3/10/87  
 Executive Director:  
 Approved by Commissioner: Bob LeResche Date: 3/10/87  
 Agency: Alaska Power Authority, DCFD

**Distribution (by Agency preparing fiscal note):**

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

POWER COST EQUALIZATION PROGRAM (AS 44.83.162-165)  
 FY 88 PROGRAM REQUIRMENTS

<u>Customer Class</u>	<u>Full Funding*</u>	<u>Governor's Budget**</u>
Residential	\$12,569.4	\$10,809.7
Commercial	3,790.8	648.6
Community Facilities	<u>3,591.3</u>	<u>2,693.5</u>
Total Grants	19,951.5	14,151.8
Administrative Costs	<u>137.3</u>	<u>137.3</u>
Total Program Costs	\$20,088.8	\$14,289.1
Funding Carryover	<u>-3,217.1</u>	<u>-3,217.1</u>
FY 88 PROGRAM REQUIREMENTS	<u>\$16,871.7</u>	<u>\$11,072.0</u>

FY 88 Reduction from Full Funding Level = \$5,799.7

\* Full program funding required under the existing statutes.

\*\* Program funding required under new legislation proposing the following changes:

Lower residential cap from 750 KWH per month to 500 KWH

Lower community facilities cap from 70 KWH per month per resident to 50 KWH. Restrict eligible community facilities to exclude non-essential services and buildings.

Lower commercial customer cap from 750 KWH per month to 500 KWH and limit eligible commercial customers to those using no more than 1,000 KWH per month.

## STATE OF ALASKA 1987 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : \_\_\_\_\_

**REQUEST**

Bill/Resolution No. : \_\_\_\_\_  
 Title : An Act Related to the Power  
Cost Equalization Program  
 \_\_\_\_\_  
 Sponsor : Governor Steve Cowper  
 Requestor : \_\_\_\_\_  
 Date of Request : \_\_\_\_\_

**FISCAL DETAIL**

Agency Affected : Alaska Power Authority  
 BRU : 08-08-24-09-00  
 \_\_\_\_\_  
 Components : Power Cost Equalization  
Program  
 \_\_\_\_\_

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)
GRANTS, CLAIMS						
MISCELLANEOUS	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)
<b>TOTAL OPERATING</b>						

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

**FUNDING : (Thousands of Dollars)**

GENERAL FUND	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	0.0	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)	(5,799.7)

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

The legislation would reduce the funding requirements of the Power Cost Equalization Program in FY 88 by an estimated \$5,799.7 through restrictions on eligible consumption levels and customers. This reduction is already included in the Governor's Budget. Cost savings in FY 89-92 would probably be larger than in FY 88, but are difficult to estimate accurately; therefore, the FY 88 estimate is used for each of these years. (See attached schedule for detail.)

Prepared by: Gloria Manni, Director Phone: 261-7210  
 Division: Accounting & Administration, APA Date: 3/10/87  
 Executive Director: \_\_\_\_\_  
 Approved by Commissioner: Bob LeResche Date: 3/10/87  
 Agency: Alaska Power Authority, DCED

**Distribution (by Agency preparing fiscal note):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

POWER COST EQUALIZATION PROGRAM  
 FY88  
 Proposed Legislation/Projected Program Requirement

<u>Program Beneficiaries</u>	<u>Full Funding Existing Legislation</u>	<u>Governor's Budget Proposed Legislation</u>	<u>LPC CS</u>
Residential Customers	\$12,569.4(a)	\$10,715.4(a.1)	
Private Commercial Customers	3,790.8(b)	1,393.5(b.1) -	3.0
Community Facilities	3,591.3(c)	1,677.1(c.1)	
Contingency	NA	365.8	
TOTAL GRANTS	<u>\$19,951.5</u>	<u>\$14,151.8</u>	<u><del>15.9</del></u>
Administration	137.3	137.3	
	<u>\$20,088.8</u>	<u>\$14,289.1</u>	<u>15.9</u>

(a) 750 kwh x mo x customer  
 (b) 750 kwh x mo x customer

(a.1) 500 kwh x mo x customer  
 (b.1) 500 kwh x mo x customer  
 whose purchase of power does  
 not exceed 1,000 kwh x mo or  
 12,000 kwh annually  
 (c.1) 50 kwh x mo x resident for  
 facilities essential to the  
 public health, safety and  
 welfare of the community but  
only if that facility  
 operations are not paid for by  
 the federal, state or private  
 commercial interest.



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 13, 1987

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the power cost equalization program. The primary purpose of this bill is to reallocate money under the program in order to avoid increases in power costs for most residential customers, who are the key beneficiaries of the equalization program.

If this bill or similar legislation is not enacted, present law would require the Alaska Power Authority to prorate any funding shortfall in the program equally among all customer classes. Under the funding level proposed in my FY 88 budget, this provision in present law would result in power rate increases of more than 50 percent for many rural residents. This bill would establish residential customers as the first priority for full funding and would avoid any increase in power rates for residential customers using 500 kilowatt hours or less per month. This consumption level is about 25 percent higher than the statewide average residential power use under the equalization program.

The bill does the following:

- (1) it reduces the cap for community facility users from 70 to 50 kilowatt-hours per month per resident (secs. 1 and 2 of the bill);
- (2) it reduces the cap for residential and commercial users from 750 to 500 kilowatt-hours per month (secs. 1, 2, and 4 of the bill);
- (3) it changes the means of allocating insufficient appropriations; residential users have first priority for full funding; community facilities have second priority, and commercial users have third priority; if money is insufficient to fund any class of user, the money will be distributed on a pro rata basis to the eligible users in that class (secs. 3 and 6 of the bill);

- (4) it redefines "community facility" to clarify that the subsidy is intended for facilities essential to the public health, safety, and welfare of the community, if the facility's operations are not paid for by the federal, state, or private commercial interests (sec. 5 of the bill);
- (5) it adds a new definition for "eligible customer" so that only three classes of customers are eligible for the subsidy: residential customers, private commercial customers with a limited power usage, and community facilities (sec. 5 of the bill);
- (6) it makes amendments to conform to the changes described above (sec. 7 of the bill).

This bill is just the first step in what I believe should be a more comprehensive redirection of state policy on reducing rural energy costs. We need to implement programs that provide lasting, long-term benefits to rural residents, rather than annual, one-time subsidies. Although the power cost equalization program has played a major role in reducing the cost of living in rural areas, it provides no lasting benefits and is completely dependent on the annual appropriations process.

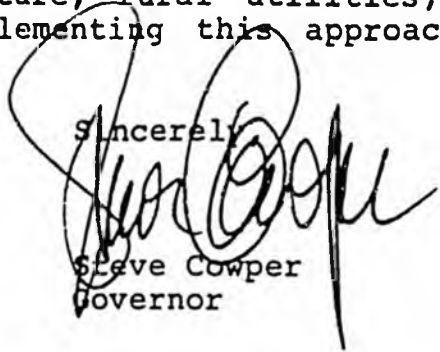
Most rural communities will probably have to rely on diesel power generation for the foreseeable future, but there is much that can be done to improve the efficiency and reduce the cost of power from these generation systems. These cost-saving measures include the replacement of oversized or inefficient generators, transmission improvements, coordination of fuel purchases among villages, and the use of more efficient lighting and refrigeration systems to reduce power demand.

These types of energy efficiency improvements can provide long-term reductions in power costs which are not dependent on annual appropriations from the legislature. Although implementing these measures will require substantial investments in rural power systems, in most cases these investments can be repaid from savings in fuel costs within a few years. The Alaska Power Authority and the Department of Community and Regional Affairs are now evaluating financing methods that would not necessitate state appropriations to make these improvements.

I believe that this shift in rural energy policy toward lasting improvements, rather than annual subsidies, will

benefit rural residents while reducing the cost of state energy assistance programs. My administration will work closely with the legislature, rural utilities, and other concerned parties in implementing this approach to rural power needs.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Steve Cowper". The signature is written over the typed name and title.

Steve Cowper  
Governor

Egegik Light & Power Company  
P.O. Box 109  
Egegik, Alaska 99579  
March 26, 1987

Representative Adelheid Herrmann  
Pouch V  
Juneau, Alaska 99811

Dear Representative Herrmann:

I am writing to you in regard to HB 182, which was recently introduced in the House. This bill deals with the Power Cost Equalization (PCE) program. Specifically, it proposed to lower the limit of eligible KWH from 750 to 500 for residential and commercial customers, and from 70 to 50 KWH per resident for community facilities. It also proposes to eliminate PCE eligibility for commercial customers whose purchase of power exceeds 1,000 KWH per month or 12,000 KWH annually.

As I have indicated to you on the telephone, I am completely opposed to this bill, because of the tremendously detrimental impact it would have on the constituents of District 26, and on the state as a whole. It is my belief that those who favor this bill are unaware of the living conditions in rural Alaska and the tenuous position of many small electric utilities in rural Alaska. On the surface, it may appear that HB 182 is a way to shave thousands of dollars off the state's budget. But there is a great danger in looking only at the surface, without an in-depth understanding of the relationship between the PCE program and the rest of the state's economy.

For example, HB 182 proposes to redefine PCE eligible customers in order to eliminate those commercial customers who purchase more than 1,000 KWH per month or 12,000 KWH annually, (probably on the assumption that these larger commercial customers may not need PCE as much as smaller customers do). However, what the advocates of this bill probably do not realize is that the elimination of PCE would turn many of these larger customers away from commercial power altogether. To use the community of Egegik as an example, there are 3 large scale commercial customers who would be affected by this change: the school, the telephone company, and the cannery. It is PCE that makes commercial power cost effective for these customers. The elimination of PCE would raise each of their electric bills by almost \$300.00 per month, or approximately \$3,500.00 per year, causing them to seriously consider generating their own power. In fact, two of these three customers already have their own generators in place, so it would

not be a major problem to do so. The problem, however, is in the impact to the utility. For a utility which serves an average of only 65 customers per month, the loss of its 3 largest commercial customers would have a major impact. Many people do not realize that an electric utility's rates are based upon a given level of kilowatt hour sales. If sales drop off because of the loss of major customers, then the rates to the remaining customers would have to be raised in order to meet the utility's expenses. When electric rates are already high, as is often the case in small remote communities where diesel generation is extremely expensive, any further rate increases can cause customers to reduce their already low consumption, or default on their payments, either of which would result in the small electric utility being unable to meet its expenses.

Many rural Alaskan utilities, including Egegik Light & Power Company, have received funding from the state in the form of millions of dollars in grants and/or loans, in order to be able to provide safe and reliable electric power to Alaska's rural communities. Rate bases have been set up for these utilities which will allow them to continue to operate in a safe and reliable manner as required by law, and to repay their state loans over a prescribed period of time. And that is exactly what will take place, if the PCE program is left intact, by defeating HB 182. On the other hand, eliminating PCE for large scale commercial customers at this point in time would be like throwing a wrench into a smoothly operating machine. The final outcome could be the folding of numerous small electric utilities, and defaults on state loans by others.

Now to address the impact of HB 182 on the rural resident, if the limit of eligible KWH is lowered from 750 to 500 per month. Once again, I believe that the advocates of this proposal are simply not aware of the conditions which exist here in rural Alaska. To a lawmaker in Juneau, lowering the limit from 750 to 500 is an arbitrary decision, aimed at one goal: to save the state dollars. But to our rural residents, the difference between these two numbers can affect their actual day-to-day quality of life.

Take, for example, an Egegik resident who uses 750 KWH per month. But first, the following point must be made: 750 kilowatt hours per month is not an extravagant or even high level of electric consumption for an average household, by any modern standards. In fact, I am sure that if the proponents of this legislation would go home and look at their own electric bills, they would find that their own average usage is well over 1,000 or even 2,000 KWH per month, even if no electric heat is used.

But to proceed with the example, the Egegik customer who uses only 750 KWH per month now pays a monthly electric bill of \$128.40, after Power Cost Equalization. If the eligible PCE limit is lowered to 500 KWH, as proposed by HB 182, that same customer's bill would be \$225.83, an increase of almost \$100.00 per month! How many of the legislators in Juneau would vote for a \$100 increase in their own electric bills?

But those who are looking at this proposal only on the surface can easily point to the statistics, which show that the average rural electric customer uses less than 500 KWH per month. So the assumption follows that if the average rural customer uses less than 500 KWH, then those that use more, up to 750 KWH, must either be quite wasteful, or rich enough to afford the \$100 increase. However, as one who sees the situation at first hand, let me assure you that neither of these assumptions is true.

The typical Egegik household which uses less than 500 KWH per month of electricity, is able to do so because it has no running water; therefore, no well pump, no washer and dryer, no dishwasher, and no hot water heater. In the winter, drinking water is obtained by driving a 3-wheeler out onto a frozen lake, chopping a hole in the ice, and dipping a bucket down into it. The water is heated in a big pot on top of the oil stove. When the family needs a bath, they gather firewood, chop it up and build a fire for the steam bath, then make one trip after another to the lake for water. Their typical house is heated by the one oil stove in the kitchen. If the house has more than two rooms, the bedrooms are probably cold, as they are too far from the stove. Washing clothes is an all day affair, beginning with packing gallons of water from the lake and setting up the big wringer washer in the living room, and ending with clothes strung out all over the house, as well as frozen clothes outside on the clothesline. This is not an exaggeration, but an accurate description of the quality of life in the bush for the average resident who uses less than 500 KWH per month.

On the other hand, those households in Egegik who use more than 500 KWH per month are typically those who do have running water from a well. Far from being rich, many of these residents have suffered and saved for ten years or more, in order to purchase their well, which may cost upwards of \$5,000 or \$10,000, depending on required drilling depth. Besides the well pump and the automatic washer and dryer, they may also have a forced air furnace (oil burning), in order to distribute heat more evenly throughout the house. However, in order to stay under the present PCE limit of 750 KWH per month, this typical household would not use an electric stove, electric space heaters, or an electric hot water heater.

Yet if HB 182 is passed, this family would be faced with an almost \$100 increase in their monthly electric bill, which they almost surely could not afford, or go back to the standard of living described in the previous paragraph.

Additionally, there is the danger that if residential electric rates increase because of a reduction in PCE, then even residential customers will begin buying and using small gas generators and generating their own power. If this happens, the rural electric utilities which the state of Alaska, through grant and loan programs, has spent millions of dollars to build will be forced to close their doors.

Reducing PCE to commercial customers would also have a very detrimental impact on the state. In rural areas where transportation and construction costs are extremely high, affordable electric power is an essential ingredient for the success of small businesses. It is because of the PCE program which has made this power affordable, that small businesses have sprung up throughout rural Alaska in recent years. These commercial enterprises not only provide necessary goods and services, thereby raising the standard of living in rural areas, but they also provide year-round employment for rural residents, thus making them less dependent on state welfare and unemployment programs. The legislature has wisely appropriated state moneys in the past for educational programs, vocational training, and small business loans in order to foster and develop private individual initiative, and make rural Alaskans more self-sufficient. However, lowering PCE to commercial customers will reverse this progress toward a healthy statewide economy, by forcing many small businesses to discontinue their operations.

Community facilities are also needed to develop and sustain the growth of rural Alaska. These facilities greatly enhance the standard of living, in ways that can hardly be imagined or measured. For example, in a community such as Egegik, where the majority of residents do not have wells, the opening of the community washeteria (scheduled for 1987) is anticipated by residents in a way that only those who have done without could possibly understand. Similarly, the newly created community watering points (wells) will provide nearby residents with a safe drinking water supply, as an alternative to drinking possibly contaminated lake water. In addition, the installation of community-wide street lighting in October 1985 has reduced the crime rate in Egegik by 90%. If a reduction in PCE causes the community to shut down the well pumps or turn the street lights off, the state of Alaska will not have saved, in the long run.

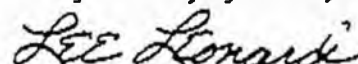
March 25, 1987

I am well aware that budget cuts must be made somewhere, and that everyone wants to save his or her "pet program". But PCE is more than just a "pet program" for rural Alaska. It is the life blood of the bush. We all know that electric power has become one of the basics of life, along with food and shelter. So much so that there are actually laws prohibiting a utility from disconnecting a customer, even for non-payment, if there are invalids, elderly, or small children residing in the household. Indeed, I am sure that those Anchorage residents who have recently experienced numerous power outages have been made increasingly aware of the value and necessity of electric power.

In fact, electric power is so important to urban Alaska that millions of state dollars have been spent just to study new ways of bringing affordable power to Alaska's cities. By comparison, the amount spent on the PCE program is small, and any reductions in that amount would not only be devastating, but extremely unfair to rural Alaskans. The PCE program is already operating at the lowest level of funding possible, in order to do what it was designed to do, make electric power affordable for rural Alaskans.

I would encourage you and your fellow rural legislators to vigorously oppose HB 182 or any other legislation which proposes to cut the Power Cost Equalization program.

Very truly yours,



Lee Leonard  
Owner/General Manager  
Egegik Light & Power Company



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# Kinetic Energy Systems INC.

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11221 Olive Lane / Anchorage, Alaska 99515  
(907) 344-2631

March 19, 1987

Representative Dave Donley  
Alaska House of Representatives  
Pouch V  
Juneau, Alaska 99811

Dear Representative Donley:

I understand that House Bill 182 which deals with changes to the Power Cost Equalization (PCE) program has been referred to the Labor and Commerce Committee for consideration.

As someone who works with small village electric utilities throughout the state, I am very concerned about the fate of these small power companies should the PCE level drop substantially.

There is also a strong need to provide incentives for the villages to operate their power systems as efficiently as possible. The PCE program, as currently structured, is actually a disincentive to reduce operating costs or induce private sector investments. These small power companies also must prepare for the day (which may already have arrived) when grants for capital equipment improvements will no longer be available.

I believe the proposed concept outlined in the enclosure is a simple step that helps meet both these needs with minimal impact on the existing PCE program and its administrative procedures and costs.

Your review of my proposal will be most appreciated. Should you have any questions, please feel free to contact me.

Sincerely,



Clarissa Quinlan  
President

Enclosures

## POWER COST EQUALIZATION PROGRAM

### PROPOSED AMENDMENT

#### Objective:

To promote energy efficiency measures by public electric utilities participating in the State of Alaska's Power Cost Equalization (PCE) program thereby resulting in lower operating expenses and cost savings to the State of Alaska.

#### Background:

As presently structured, the PCE program provides no incentive for electric utilities to improve generation and electrical distribution efficiencies. As long as existing operating costs are reasonable, they are incorporated into PCE calculations by the Alaska Public Utilities Commission (APUC).

Because no incentive exists to reduce operating expenses, small electric utilities tend to retain the status quo as far as improving operating and maintenance (O&M) procedures and equipment.

Another serious effect of the PCE program is to limit private capital investment in power production facilities. There are two primary reasons for this:

- o In many instances a large share of actual operating expenses are paid by the State, not the consumer. The economic feasibility of projects is skewed because of the State subsidy.
- o There are little or no benefits to a utility if increased energy or distribution efficiencies are achieved. The resulting cost savings mean lower PCE payments from the State with no direct benefit to the utility.

Concept/Methodology:

The proposal presented below does not address the question of PCE funding levels. This issue is best handled by State leaders and policy makers knowledgeable about budgetary and other considerations.

The general concept is to provide a simple mechanism so that the utility and the State can equally share in savings that result from the electric utility obtaining improved system operating efficiencies.

The savings incentive would be in effect no less than five years duration. PCE "Efficiency Savings Earned" must be dedicated to capital improvements by each utility.

The 'PCE "Efficiency Savings Earned" would be calculated as follows:

- (1) Determination of a historical system efficiency level for each utility.

The "base" efficiency level will be calculated from historical data already submitted to the APUC in required annual reports (unregulated utilities) and or tariff change requests (regulated utilities) prepared by each electric utility.

This base or historical reference number will be expressed in terms of Kwh/gallon; that is, the number of Kwh produced from each gallon of fuel consumed during the reporting period.

The calculations use existing information provided to the APUC in the above referenced reports. The following illustrates the proposed methodology thru use of a small utility example:

Determination of Historical Efficiency  
Utility A -- Annual Report

Total Kwh Sold		
-----	=	Historical Kwh/Gallon Efficiency
Gallons Fuel Used		

480,000 Kwh		
-----	=	7 Kwh/Gallon Historical Efficiency
68,571 Gallons		

(2) Fuel Efficiency/Cost Savings Above the Historical Reference Level are Cost Shared by the State of Alaska and the Utility.

Monthly reports are submitted to the Alaska Power Authority (APA) as the basis of each monthly PCE payment. Reference highlighted sections of Attachment 1.

Monthly, a simple calculation can be made by APA staff to determine the actual system efficiency level for the month and the amount of shared savings achieved by the utility, if any.

The numbers in parenthesis represent the item number in the monthly PCE report (Attachment 1) from which the data is derived.

December "Efficiency Savings Earned" Calculation

a.	<u>Monthly Kwh Sold</u> ----- Historical Kwh/Gallon	=	Historical Monthly Fuel Used Reference		
	40,000 Kwh Sold ----- 7 Kwh/Gallon (Item 1 above)	=	5,714 gallons		
b.	Historical Mo. Fuel Used Reference	x	Current Price of Fuel (No. 4)	=	Historical Mo. Fuel Value
	5,714 gallons	x	\$1.40/gallon	=	\$7,999.60
	Less:				
	Total Monthly Fuel Expense (No. 4 x No. 7 = No.)			=	\$6,587.00 -----
	Total Increased Efficiency Savings				\$1,412.60
	Divided By 2:				
	Equals:				
	Increased Efficiency Earnings by the Utility in December				\$706.30 =====

ALASKA POWER AUTHORITY  
 334 West 5th Avenue  
 Anchorage, Alaska 99501  
 (907) 276-0001

POWER COST EQUALIZATION PROGRAM

Address \_\_\_\_\_ Utility Name Utility A  
 \_\_\_\_\_ Certificate Number \_\_\_\_\_  
 \_\_\_\_\_ Utility Telephone Number \_\_\_\_\_  
 Number of Days in Billing Period (ended) 1 31 / December 31

This column to  
 be completed by  
 Submitting Utility Alaska Power Au-  
 thority Use Only

I. Costs

- 1. Present Power Cost Equalization Rate (\$/KWH) Approved by Commission 15.0 /KWH
- 2. Date of Approval \_\_\_\_\_
- 3. Price of Fuel Used by Commission in Determining Power Cost Equalization \$ \_\_\_\_\_ /gal
- 4. Current Price of Fuel \$ 1.40 /gal
- 5. Total Monthly KWH Generated \_\_\_\_\_
- 6. Total Monthly KWH Sold 40,000 Kwh
- 7. Total Monthly Fuel (Gallons) Consumed 4705 Gallons
- 8. Total Monthly Fuel Expense \$ 6,587.00
- 9. Total Monthly Operating Expense (less fuel) \$ \_\_\_\_\_

II. Customers/Facilities/4

- 1. Total Number of Utility Customers (excluding Community Facilities) \_\_\_\_\_ VENDOR # \_\_\_\_\_
  - 2. Total Number of Community Facilities/1 \_\_\_\_\_ VERIFIED: \_\_\_\_\_
  - 3. Community Population/4 \_\_\_\_\_ PROJECT MGR: \_\_\_\_\_
  - 4. Date Population Certified by DCRA \_\_\_\_\_ ACCOUNTING: \_\_\_\_\_
- APPROVED FOR PAYMENT: \_\_\_\_\_  
 APPROVING OFF: \_\_\_\_\_

III. KWH's Sold

- 1. Total KWH eligible for assistance sold to Utility Customers/2 (excluding Community Facilities) \_\_\_\_\_ A/C# \_\_\_\_\_
- 2. Total KWH eligible for assistance sold to Community Facilities/3/4 \_\_\_\_\_ PAYMENT: NLT \_\_\_\_\_
- 3. Total eligible KWH Sold to All Customers and Community facilities during Billing Period 25,400 x 15.0¢ = \$5310.00

Efficiency Savings = 706.30  
 Amount Paid \$6016.30

IV. Certification/4

I hereby certify that the information submitted to the Alaska Power Authority in support of (name of utility) \_\_\_\_\_ (Certifying Officer)  
 \_\_\_\_\_'s participation in the \_\_\_\_\_ (Date)  
 Power Cost Assistance Program is true and correct to the best of my knowledge.

1 "Community Facility" means a water and sewer facility, public outdoor lighting, charitable educational facility, or community building whose operations are Not paid for by the State, Federal Government, or private commercial interest.

2 Actual consumption of not more than 750 kilowatt-hours per month sold to each customer.

3 Calculated in the aggregate for each community served by the electric utility, for actual consumption of not more than 70 kilowatt-hours per month for each resident of the community.

4 If more than 1 community is served by a utility, a total system report must be submitted in addition to a monthly report for each community.

# ONSITE ENERGY

P.O. Box 9217  
838 S.W. 1st, Suite 520  
Portland, Oregon 97204  
Telephone (503) 243-4033  
FAX 243-4661

February 16, 1987

## MEMORANDUM

FOR INTERESTED PARTIES

FROM ANGUS DUNCAN  
ONSITE ENERGY, INC.

SUBJECT THE POWER COST EQUALIZATION PROGRAM (STATE OF ALASKA)

The State of Alaska's Power Cost Equalization (PCE) program has accomplished much of value for the bush communities that are its chief beneficiaries. Most importantly, it has made electric power affordable and therefore available, where otherwise the extremely high costs of small diesel-based systems would have prohibited their use. In this respect, the PCE has served Alaska as the REA programs brought power to the rural United States earlier this century.

### The Problem

At the same time, the PCE has had unintended, and negative, consequences.

- o It has encouraged and perpetuated costly inefficiencies in the choice and operation of power systems, since there is no community incentive to manage costs through efficiency. With the State picking up costs in excess of a specified support level, the price signal to conserve or upgrade systems is eliminated.
- o It has discouraged private investment in bush community electrification, since the primary customers -- the communities -- have no incentive to improve their systems. (In other parts of the United States, non-utility third-party "energy services companies" have emerged to provide new technology and lower cost power to a variety of customers.)
- o It has cost the State of Alaska dollars that might have been better spent elsewhere; perhaps acceptable in times of State budget surpluses, but not now.

# **ONSITE ENERGY**

The Alaska Power Authority (APA) program of loans and grants shares with the PCE many of these same attributes and drawbacks. Even in the midst of 1987's State budget crisis, and with the new Governor calling for greater private investment in Alaska's economy and infrastructure, the APA is subsidizing a community (the City of Galena) that is directly competing for new load (the Galena Air Force Base) when private financing is available for the job. The effect is to use scarce State budget resources, not as leverage to bring new capital into Alaska, but as a disincentive to exactly the kind of private investment the Governor has called for.

## Solutions

Any change in these programs needs to recognize and to affirm their principal objective: manageable power costs and the extension of power systems into the bush communities. At the same time, it should result in lower costs to the State, improved efficiencies in power system design and operations, a reliable price signal to users, and economically-sound incentives to leverage new private capital into the process.

1. Offer State/Community "Shared Savings": The State should agree that any improvements in power system efficiencies and lower costs would result in only a 50% reduction in PCE payments. The community would realize the other 50% in lower power costs, down to the level of PCE support (after which the community would see the full benefit). This would provide incentives to communities to upgrade their power systems, while directly saving State funds.
2. Provide State Guarantees of Power Sales Contracts: At the same time, the State should agree to guarantee "take-or-pay" power sales contracts between communities and third-party energy services companies providing higher-efficiency, lower-cost power. This would provide the incentive and the means to leverage into the State the private capital needed for the upgrades, rather than putting this capital demand on the State. The actual costs to the State (from community defaults on contracts) should be minimal, and more than offset from the PCE and other program savings.

# **ONSITE ENERGY**

3. Put APA Loan/Grant Programs on a Matching Basis:  
Require private investment in new power systems or upgrades on a matching basis, as further leverage. At the same time, do not permit the APA to provide funds in competition with private investment when the latter is available.

Other measures can no doubt be thought of to improve this approach, and should be encouraged. But these three steps would seem to be advisable, able to be implemented quickly, and politically possible.

NEW DIRECTIONS FOR ALASKA ENERGY POLICY

by

Scott Goldsmith  
Institute of Social and Economic Research  
University of Alaska, Anchorage

ISER Working Paper 86.8-

October 10, 1986

## INTRODUCTION

Dramatic changes have occurred in world energy markets in the last nine months, changes that will have far-reaching consequences for energy policy in Alaska. The precipitous drop in the world price of oil has sharply reduced the discretion of the state to fund energy-related projects. It has shifted the immediate prospects for the economic viability of private energy projects. Most importantly, it has altered the perceptions of experts as to the long-term evolution of supply and demand for petroleum, and with it the price of oil, the single-most important variable which has been driving energy policy making in Alaska.

The possibility of a sudden fall in the price of oil was totally ignored in the formulation of energy policy in Alaska. Decisions have been made on the basis of an ever increasing price of oil, an assumption which makes Alaska energy more attractive, valuable, and expensive with the passage of time. The sudden and complete negation of the validity of that assumption in a few short months has left people reeling. Many people see neither the immediate implications of this change nor the longer-term implications for state energy policy. This change is so basic, however, that it is necessary to completely rethink what Alaska energy policy can and should be in a world where oil is just another commodity, rather than a magic liquid with a forever increasing price.

The purpose of this working paper is to begin to lay out some of the implications of lower oil prices for Alaska energy policy and to analyze the energy policy of the state in light of these developments. From this may emerge the information to begin a dialogue on what the new directions of energy policy for Alaska should be.

#### OIL MARKETS IN THE NEXT DECADE

We can no longer expect the price of oil to continue to grow at or in excess of the rate of general inflation from a mid-1980s level of about \$30 a barrel. Petroleum is a commodity subject to the laws of supply and demand. When its price increases, new sources of supply will enter the market, and demand will be reduced as consumers switch to cheaper alternatives. Petroleum is unusual only in the long period of time associated with the adjustment of both supply and demand to higher price. On the supply side, when the price of oil goes up, the incentive to produce oil increases, first from existing capacity, but also from additions to capacity. It is these capacity additions which take time to enter current supply, for example, in the case of the North Slope of Alaska, anywhere from five to ten years. At the same time, an incentive is created to substitute energy from other sources for energy from oil. On the demand side, the consumption of petroleum is largely done in conjunction with a stock of investment capital--cars, furnaces, engines. An increase in the price of oil will induce consumers to use less oil, but they will do so largely through the purchase of more energy-efficient capital equipment when the existing equipment wears out.

The result is that market adjustments to petroleum price changes take many years to reach a new equilibrium. This final equilibrium will be at a lower price and greater supply than initially anticipated. The period since the increase in the price of oil in 1979 is a good example of this adjustment process. Consumption growth has been curtailed, and supply growth has accelerated in response to the price increase. Some members of OPEC have decided that the price was too high to allow them to maintain their market share. Consequently, one interpretation of recent events within OPEC is that it represents a calculated attempt to set the price at a level which will reduce not only conventional sources of oil outside of OPEC but also the incentive to invest in new supply and alternative energy sources and the incentive to pursue conservation.

Using this rationale, the OPEC ideal price for oil is one that maximizes the revenues they will receive over the long run--not so high that it induces either serious alternative resource developments or excessive conservation and not so low that they are giving the oil away as a cheap substitute for coal. It appears now that a price of \$30 rising in real terms over time would be high enough to induce those adjustments, and consequently there is at least one economic, as opposed to political, reason for OPEC to adopt a strategy which keeps prices within the range of \$12 to \$20 in real 1985 dollars over the next ten years.

### THE CURRENT SITUATION

For the past nine months, all attention has been riveted on the current oil price situation. The obvious reason is that before the price of oil began to tumble, about 85 percent of state and a large proportion of local government revenues in Alaska were derived from oil and gas taxes and royalties. In addition, the petroleum industry is an important private employer in the state and generates large demands on other sectors of the economy, primarily construction, transportation, and wholesale trade and business services. The fall in the oil price contributed an additional blow to an economy that was already "soft," coming off the investment boom of the early 1980s. For state energy policy, the immediate concern was the continued ability of state government to fund energy projects such as Susitna and the power cost equalization program.

The lower oil price means less public money and less private money for the petroleum industry and for other energy industries dependent upon oil prices, such as coal and natural gas. This translates into a reduction in the rate of growth of the economy and with it, the demand for energy in the state. The slowdown in the economy also means that growth in personal income and business income will slow. Households and businesses will increasingly look for ways to cut costs, and one way will be to conserve on their use of energy.

The most obvious implications for state energy policy of oil prices in the \$12 to \$20 range for the next ten years are as follows:

- The amount of public money available to subsidize energy projects and programs will decline sharply.
- Energy demand growth will be much slower than it has been historically because of slower economic growth, reducing the need for large-scale projects to meet the demand.
- Market forces will resurface as the most important factor in the allocation and consumption of energy in the state.
- The need to subsidize energy programs and projects will decline as the real price of energy goes down relative to other goods and services and income.
- The viability of development of Alaska energy resources for export will be reduced.
- Energy conservation will continue to be an important method for reducing the cost of living and the cost of doing business in the state.

#### REVIEW OF CURRENT POLICY

The objective of energy policy is to provide energy at the lowest possible cost while ensuring that all citizens have access to at least minimum amounts of energy. Because of the vast amounts of money available to state government in recent years, however, cost never was the primary consideration in policy decisions. Income

redistribution and employment generation became the primary, though unstated, criteria for policy formulation. The primary objective was to spend money to create jobs and to provide income to individuals using energy programs as the vehicle. The result was a mish-mash of programs and projects which have been generally costly and contradictory, or at best poorly designed to serve their purpose. We have spent literally hundreds of millions of dollars for programs which have produced a legacy of expensive excess capacity and energy prices which distort household and business energy production and consumption decisions.

Three examples will demonstrate this: Several hundred million dollars of state funds were used to subsidize the construction of hydroelectric projects in Southeast and Southcentral Alaska. The primary benefit of this expenditure was the creation of a large number of construction jobs. The power provided by the dams is priced low because the subsidy has paid most of the cost, but the real cost of power from these dams is very high because so much money was spent on the dams. In addition, they have resulted in considerable excess and unused capacity. These dams have been a success only in the sense that their construction created a lot of jobs. The same amount of power that is consumed in those systems today could have been purchased at much lower cost to the state and its citizens. If consumers had to pay the full cost of generation of electricity from those dams rather than a rate subsidized by the state, the rates would be as high as in many parts of the Bush.

At the same time that the state was subsidizing the construction of high-cost hydropower in the Southeast and Southcentral, it has been giving consumers in rural Alaska money through the power-cost equalization program to consume high-cost electricity. Like the construction of hydropower, the apparent purpose of this program is to help consumers to pay the least price possible for their electricity. The result is that the cost of electricity now appears to be low to consumers, and they use a lot of it. There is no incentive for consumers to conserve on the consumption of a commodity that is costly. This puts additional demand on generating capacity, and new capacity is added to the system. Since the government rather than the consumer is picking up most of the cost, however, there is little or no incentive for the utility to get the cheapest or most efficient generating unit. Investments in conservation which should be made are not made, and investments in additional capacity which should not be made are made.

The third policy is the energy audit program. Under this program, households and businesses could have an audit of their energy consumption patterns performed, which included an analysis of savings from both the installation of different energy-saving devices and the institution of various conservation practices. Grants were available for the purchase of equipment and supplies which could be shown to be cost efficient. This program was designed to produce rational energy-use decisions by being targeted toward purchases which would make energy consumption more

efficient. Its shortcoming was that it was poorly administered, and, like hydroelectric construction and power cost equalization, it was primarily viewed as a combination job-producing and income-transfer program. The jobs produced were for a cadre of auditors who, because they were paid on a piecework basis, had every incentive to complete the audits as rapidly as possible. Clever auditors headed for the condos, where there were many identical units and an audit of a single unit could serve for the whole development. The income transfers were the grants for storm windows, insulation, etc. We conclude that these were the real objectives of the program based on the fact that there was never any attempt to monitor the success of the program in terms of how much energy was actually saved. No one seemed interested in whether the program was cost effective. The question of how much it was costing the government to save on energy in this manner was never asked for this program.

Of course, it would have been extremely difficult to answer that question because this and other programs primarily designed to conserve energy were operating at exactly cross purposes with those policies which subsidized the consumption of energy. One agency of government was paying consumers, either directly or indirectly, to use more energy, while another was paying consumers to buy energy-reducing equipment. Pity the poor analyst asked to measure the effectiveness of policy in this environment.

### THE LEGACY OF BAD POLICY

The problem with these policies has not been that they resulted in the creation of construction jobs or that they provided increases in income to construction workers, auditors, and households in rural parts of the state. These may be valid ways to spend public money if there is money left over after necessities such as education and public safety have been funded. The problem is that by furthering these objectives under the guise of an efficient energy policy (delivering the jobs and the income through programs that subsidized the uses of energy), not only were job creation and income transfers provided inefficiently but also, as a consequence, we now have an inefficient stock of energy-using capital and distorted consumer behavior with regard to energy consumption. We could have simultaneously done a better job of creating jobs and transferring income, while at the same time creating a legacy of more efficient capital stock to meet future energy needs based upon the real cost of energy.

It is important to recognize a significant difference in the impact of the two energy programs for subsidizing consumption--the subsidization of large capital-intensive projects and the subsidization of consumption in rural Alaska. This relates to the ability of the state to continue subsidizing these programs when revenues drop. The large capital projects are in place and have been paid for. They are relatively cheap to operate and, although costly to construct, the rates based on operating costs are low.

The cost of having resource misallocation in this case has already been paid. (For the state as a whole, the continuing cost is that there is now less money in the state treasury for paying for necessities in these leaner economic times.)

In contrast, the subsidized rates in the bush, however, are a continuing obligation of the state. If and when the subsidization is discontinued, these consumers will face electricity rates which reflect the full cost of power generation. This full cost now includes the cost of the expanded generating capacity, which has been added to meet the subsidized demand. At higher rates which include the full cost of generation, demand will drop significantly. This will require further rate increases to cover costs, eventually to a level higher than they would have been if the subsidy had never been in effect. In addition, consumers now have a stock of electricity-using capital, which is not as efficient as it should be. Again, the artificially low price gave those consumers the wrong signal about what things they should have been buying. In the worst cases, people will have switched from traditional methods of space heating to electricity because of the subsidy. Such capital investments will be very expensive indeed when the price of electricity again reflects its real cost.

The individuals making these choices should not be blamed for making bad decisions. Rather, it is the fault of the state's energy policy for providing the incorrect incentives for consumers and

businesses. This is a perfect example of how the availability of a lot of public money has reduced the efficiency of the economy by allowing the government to temporarily change the price structure in such a way as to channel investments and consumption into irrational ways. Consequently, the government has an obligation not to terminate this program abruptly, leaving the affected communities with the dual burden of inefficient electric-generating facilities to pay off through high rates as well as an inefficient private capital stock.

#### NEW ENERGY POLICY

If \$15 to \$20 a barrel is a reasonable prognosis for the future of the price of oil and this slows the growth of the Alaska economy, the general outlines of a new energy policy emerge. This policy is less ambitious than past efforts for the simple reason that there will be less money to devote to the problem. It is more rational because it is a policy divorced from the objectives of job creation and income distribution. It is also more efficient because it places the primary responsibility on the energy industry and the private sector to make energy production and consumption choices based upon market-determined prices.

1. Market Reliance. The market should allocate energy because it can do it most cost effectively. Market prices, in general, reflect the real cost of producing and consuming different types of

energy, and decisions should be made on the basis of the real costs. We should buy and consume the lowest-cost energy.

2. Minimize Market Failures. The existing institutions do not always operate in such a way as to allow the signals of the market to reach consumers. There are a number of reasons for this: first, various types of production or consumption may produce side effects such as acid rain or excess smoke, which have costs that are not included in the price because these costs are not paid by the producer or consumer. The costs are borne by some third party who is not part of the transaction. For redressing many of these imbalances, the federal government is the proper level for government involvement. There are others which require state, or local, intervention. Policy should concern itself with the need for as well as the form of that intervention.

Second, it may be cheaper for a natural monopoly to produce, transmit, or distribute energy. If it is in the public interest to have only one firm in a market, that firm must be regulated. Policy questions center on the nature and extent of that regulation.

Third, the utilities and the energy-producing companies may have objectives which do not coincide with the objectives of individual energy consumers. In addition, these institutions may have a competitive advantage, established by law rather than by the realities of the marketplace, which prevent free competition among alternatives.

For example, the objective of a utility is to provide energy to the consumer at the lowest possible cost consistent with safety and reliability considerations. In reality, the success of a utility is often measured by the absence of rate increases. However, for the consumer, the lowest possible energy cost need not be consistent with the lowest possible rate for utility-provided power.

Consider a hypothetical electricity conservation device which could be installed at nominal cost in a house and reduce utility electricity demand by 50 percent. Most households would be interested in such a device because it would reduce their need for utility power. The utility would not be interested in such a device, however, because if a household installed one, demand and with it revenues would fall, and rates would need to rise to cover fixed costs of plant and equipment. This rate increase, of course, would not bother the consumer with the conservation device whose total bill for energy services is still lower than before, even with a higher rate for energy from the utility. Government may have a role in the stimulation of conservation in this case and in adjusting the "rules of the game" of the marketplace in general.

Finally, market information is not always available to all consumers and producers because the collection of information involves a cost. It may be cheaper for government to collect and disseminate information about options and costs of alternatives.

3. Single Objective. Energy subsidies should not be used as a means to redistribute income or to create jobs. Rather, if there are households or regions which are deserving of assistance because the cost of energy is high and incomes are low, a direct income subsidy is more appropriate than the subsidization of energy. The subsidization of energy promotes excess use and waste while a direct monetary transfer, since it can be used on any good or service, does not distort the use of energy. Since it may be difficult politically to separate these criteria, a compromise policy might be the subsidization of a lifeline level of energy consumption in very targeted instances.

4. Sensitivity to Legacy of Problems from Old Energy Policy. The distortions created by past decisions should be phased out in a way which minimizes the adverse impacts of the transition. There are households and businesses that will need to adjust their consumption patterns. The past misallocations must be recognized, and government must also recognize the good faith adjustments that consumers have made on the basis of those policies. For example, the power cost assistance program phase-out should be done in such a way as to minimize the impact on electricity rates. One possibility would be through a grant to the impacted utilities to pay off the cost of the generating equipment newly put in place during the years of subsidy.

5. Large Projects Unnecessary. The requirement to construct large projects today in anticipation of increases in demand for

energy or in anticipation of the exhaustion of existing sources of energy is no longer valid. Demand growth uncertainty will continue in Alaska, impacted both by the changed prospects for the growth of the economy and by the increased availability and incentive to use energy-saving devices. Alternative supply sources for electricity can be examined at a more leisurely pace if the growth of demand is slower, as existing supplies will last for a longer time. Decisions on new capacity can be postponed, allowing time for the development of new techniques for generating power in new, different, and more efficient ways. When expansion does become necessary, new capacity should be the most cost effective over the life of the facility, assuming both reasonable energy prices and energy demand.

# Rural Alaska Community Action Program, Inc.

January 20, 1987

Representative Kay Brown  
Alaska State House  
Pouch V Mail Stop 3100  
Juneau AK 99811

Dear Representative Brown :

I am forwarding to you several recent actions of the RurAL CAP Board of Directors regarding rural energy issues. Though these concerns and ideas have the most impact on rural people, in these difficult times in our state, all issues that have budgetary implications are statewide issues. Thus we have sent this information to all of your fellow legislators.

This year will be a difficult year for you. Many issues demand attention and financial support. It will not be an easy task to decide which plans and programs will receive support and which must be set aside. These thoughts relate to energy and I trust that you understand how much energy costs impact the lives of rural people, especially low income rural people.

Happily, the ideas and concerns presented here are ones which will save the State money, rather than increase our financial difficulties.

I hope that you or one of your aides will have time to consider the enclosed information thoroughly. However, here is a very brief summary of what is enclosed:

1. Power Cost Equalization. Resolution #86-28. RurAL CAP strongly supports the intent of the Power Cost Equalization program. Rural people need help with high energy costs. Rural areas deserve their fair share of the large amounts of money spent by the State to meet the energy needs of Alaskans.

However, RurAL CAP continues to believe that the best form of assistance that the State can provide is assistance which reduces the amount of oil needed for heating and lighting rather than artificially reducing the cost of the electricity and heating oil used.

Granted, subsidy programs reach many households simultaneously, but they also make them dependent and vulnerable to economic and political changes that can quickly reduce or eliminate the subsidy. Subsidies provide relief but offer no real solution to the problem.

Alternative technologies should be explored but we believe that the best immediate and workable approach is to improve efficiency. This can be done on the power production and energy delivery side and on the end use side. The enclosed paper presents one idea which we think deserves consideration. Something like it should be a part of any proposal.

In brief we propose: Reduce overall heating and lighting consumption with more efficient buildings, heating systems, lighting systems, and appliances. THEN, eliminate or reduce the power subsidy.

There is a great deal of skepticism in Alaska about energy conservation. However, our experience continues to verify our contention that improving efficiency does reduce consumption and energy costs in rural Alaska. It is not a simple issue, we know. But efficient supply and use of energy in rural Alaska is clearly the direction the State must move.

2. Exxon and Other Oil Overcharge Restitution Funds Resolution #86-29. RurAL CAP has been participating in a coalition of several groups that are concerned about the way in which oil overcharge monies are distributed in Alaska. This group advocates creating an advisory group which would evaluate proposals for using these funds and make recommendations to the designated agency. Decisions about the funds would be based on each proposal's merit in accordance with several criteria. We support this concept and the criteria proposed by the coalition.

3. Weatherization Resolutions #86-30 and #86-38. This program has served many low income people and helped improve the quality of their housing as well as reduce their energy costs. Many more households are eligible for this program. It deserves serious consideration for State funding.

Last year the legislature choose to virtually eliminate State revenue as funding and used Exxon overcharge funds to pay for this program. Unfortunately, Exxon money must be used in accordance with very restrictive federal Department of Energy guidelines. As a result, this year's program is far less effective than previous years.

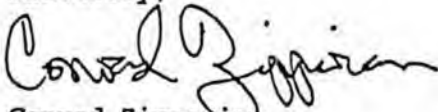
Next year the legislature should consider using a different mix of dollars to ensure adequate and flexible funding for the weatherization program.

4. An Energy Conservation Revolving Loan Fund. Resolution #86-31. Energy conservation will pay for itself in rural Alaska. One hurdle for many rural people is available capital to buy energy saving devices.

Previous State loan programs have not met rural needs. These programs were designed for cash oriented communities not subsistence oriented communities with undeveloped cash and credit mechanisms. Loans to rural residences would produce very significant energy savings. True, there would probably be a high default rate. Nonetheless, the State could leverage a great deal of energy savings and benefit for its rural residents with a properly designed loan program.

Thank you for considering these ideas. Please contact us if you have questions or would like to discuss them further.

Sincerely,



Conrad Zipperian  
Energy Program Director

Enclosures

CRUDE OIL OVERCHARGE REFUNDS

Submitted to:

STATE LEGISLATIVE REPRESENTATIVES OF THE RAILBELT REGION

and

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS  
STATE OF ALASKA

Submitted by:

MUNICIPALITY OF ANCHORAGE  
ALASKA PUBLIC INTEREST RESEARCH GROUP  
TRUSTEES FOR ALASKA  
POWER FROM THE PEOPLE  
ALASKA CENTER FOR THE ENVIRONMENT  
RURAL ALASKA COMMUNITY ACTION PROGRAM

UPDATE: December 31, 1986

December 31, 1986

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#### EXECUTIVE SUMMARY

The signatories urge the legislators to establish a process for evaluation of energy programs that are proposed for ranking and subsequent funding from oil overcharge allocations.

The four actions requested are:

1. Appropriate all the oil overcharge funds to a single lead agency.
2. Direct the lead agency to set up an advisory committee to evaluate projects for funding.
3. Direct the lead agency to have energy project ranking based on five criteria. These criteria are supported by a broad based coalition of urban, rural and public interest groups.
4. Direct the lead agency to provide oil overcharge funds to energy projects according to the ranking as established by the advisory committee.

### Oil Overcharge Funds

On January 26, 1986, the U.S. Supreme Court ruled that the Exxon Corporation would pay over \$2 billion in refunds and interest for oil overcharges.

These oil overcharges were for oil products and by-products in the form of vehicle fuels, facilities and home heating fuels, utility power generation and industrial products.

The Supreme Court also upheld a lower court ruling that the money would be distributed to the various states to be spent on identified energy programs, as restitution to consumers who were overcharged.

Alaska's share of the settlement is \$8.26 million.

In its decision, the Federal court ruled that the Exxon funds must be governed by the guidelines and regulations of the five Federal energy programs through which they are distributed.

The funds cannot be used for administrative purposes and cannot supplant state funds appropriated for energy conservation. The interest from these funds must be used in the same manner as the principle.

The State of Alaska, upon receipt of the funds, placed the funds in a trust account.

The Exxon Corporation oil overcharge payback fund monies are to be distributed in Alaska by the Department of Community and Regional Affairs and be appropriated to the qualifying refund programs among five Federal energy programs:

- A. Energy Extension Service
- B. State Energy Conservation Program
- C. Institutional Conservation Program
- D. Low Income Weatherization Assistance
- E. Low Income Energy Assistance

For a period between July 1, 1986 and June 30, 1987, the State will apply \$2 million of its share of the Exxon funds to the low income weatherization assistance program and \$500,000 to the institutional conservation program.

The remaining \$5.76 million of the funds are to be spent over a three year period for qualifying energy conservation programs.

In addition to the Exxon settlement, other oil overcharge settlements are forthcoming. For example, \$2.6 million of Stripper Well money has been received. Unlike Exxon funds, these and other oil overcharge funds are not restricted to the five federal energy programs listed above.

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## RECOMMENDATION

### Distribution of Exxon and Other Oil Overcharge Restitution Funds

Oil overcharge funds represent government's method of righting a wrong. Consumers of energy products were overcharged. Restitution is directed to consumers through these funds. In that light, the funds must be used to enhance the state's response to consumers' energy needs and problems.

The overcharge restitution funds provide an opportunity to reevaluate the state's residential and consumer oriented energy programs in light of new technical developments and the state's current economic situation.

Existing programs that are benefitting consumers should continue to receive their primary support from state revenues. The state should maintain its historic commitments to these programs. Restitution funds should supplement state funding for these programs but should be used primarily to fund only those projects which meet the criteria listed below.

An advisory evaluation team should be formed to work with the Department of Community and Regional Affairs. This team should evaluate the five Federal energy programs as well as proposed programs or projects that may be eligible for restitution funds.

The advisory team should be composed of government program administrators, conservation technical experts, representatives of Native regional non-profit groups, conservation "activists", rural and urban utility representatives, etc.

Recommendations of the team would be incorporated in the review by the appropriate state decision makers.

Existing programs should also be evaluated with the same criteria as any proposed new programs. Though Exxon funds are limited to the five Federal energy programs, distribution of restitution funds through these programs should be based upon clearly defined and measurable criteria. "Historic distribution" formulas should not be applied to these funds.

Distribution of Stripper Well and other oil overcharge restitution funds should be based upon the criteria.

Criteria should include the following:

- A. Greatest direct measurable reduction of residential energy consumption for the least cost.
- B. Most significant impact on consumers most effected by overcharges.
- C. Largest number of state residents who will receive economic benefits.
- D. Return on investment to the State of Alaska.

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E. Largest number of local jobs created.

Criteria should be given a point range to weigh their impact on the final evaluation. The advisory evaluation team should determine the maximum and minimum points for each criterion.

Each program or project will receive points under each criterion. Proposals receiving the highest score will be given the strongest recommendation for funding.

Explanations of the Criteria

- A. All programs and projects should produce measurable (or calculable) energy savings. Programs which produce the greatest actual reduction of energy consumed will be given the highest rating. (i.e. fewer units of fuel used to provide the same level of service.)

Economic analysis of projects will include determination of life cycle costs and payback period. Projects with the shortest payback should generally be given a higher ranking. Benefit-to-cost ratios should be determined and considered. Projects which show extremely significant life cycle benefits could be given preference over projects with shorter paybacks.

- B. Projects should serve residents who are most adversely affected by high energy costs. This determination should be made on the basis of the percentage of annual income expended for basic energy needs: heating, lighting, and cooking.

The anticipated affect of this determination is that projects which serve low income people who live in cold regions of the state and who pay high rates for energy will be given the highest ranking.

- C. Projects that result in energy saving that create economic benefits for as many residents as possible. Economic benefits could result not only from lower utility bills but also from other factors such as lower property taxes. The principle employed here is the greatest good for the greatest number. Projects which provide small amounts of energy savings for a large number of consumers will receive a higher ranking under this criterion than projects which produce larger savings for fewer residents.
- D. Projects which return money to the State of Alaska through methods such as shared saving loans, offset energy subsidies, or as returns to the project will receive the highest ranking under this criterion.

In addition, projects which are able to utilize or leverage private funds will receive a higher ranking under this criterion.

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Returns should be as measurable and definite as possible. Anticipated returns should depend upon project performance not upon expected future decisions or actions of energy consumers.

- E. Projects should seek to provide jobs for Alaskans. On-site jobs for local residents are preferred and should receive a higher rank.

PP93/94

# Rural Alaska Community Action Program, Inc.

RESOLUTION # 86 - 28

ENTITLED: URGING A GRADUAL REDUCTION OF THE POWER COST EQUALIZATION PROGRAM IN CONJUNCTION WITH A COMPREHENSIVE RURAL RESIDENTIAL ENERGY CONSERVATION PROGRAM.

WHEREAS, energy costs represent a very high percentage of the income of rural residents, and

WHEREAS, the Power Cost Equalization program has helped lessen the burden of high energy costs, and

WHEREAS, the Power Cost Equalization program does not encourage nor facilitate reducing energy consumption, and

WHEREAS, the Power Cost Equalization program is subject to the whims of the state legislature, and

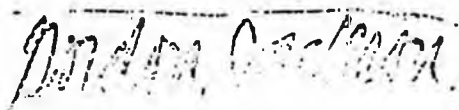
WHEREAS, the Power Cost Equalization program may be reduced or eliminated due to the poor condition of the state's economy, and

WHEREAS, gradual reductions of the PCE subsidy as well as sudden termination of the program would impose economic hardship on many rural residents,

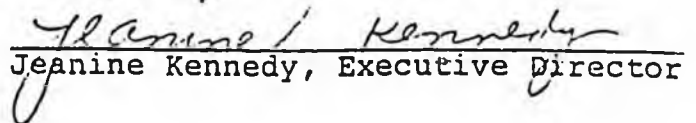
now, therefore, be it

RESOLVED: that the Board of Directors of the Rural Alaska Community Action Program does hereby urge the Governor and the Legislature of the State of Alaska to establish a comprehensive rural residential energy conservation program as the method of systematically and gradually achieving a major reduction in Power Cost Equalization program expenditures.

ADOPTED this 17th day of December, 1986 at the Annual Meeting of the Board of Directors held in Anchorage, Alaska.



Gordon Jackson, President



Jeanine Kennedy, Executive Director

# Rural Alaska Community Action Program, Inc.

RESOLUTION # 86 - 29

ENTITLED: ENDORSING THE CONSERVATION COALITION'S POSITION REGARDING THE DISTRIBUTION OF OIL OVERCHARGE RESTITUTION FUNDS IN ALASKA.

WHEREAS, Rural CAP has participated in the development of this strategy, and

WHEREAS, this position is essentially the same as previously taken by the Board, and

WHEREAS, the distribution of these funds should be done in accordance with principles of energy conservation rather than political power,


now, therefore, be it

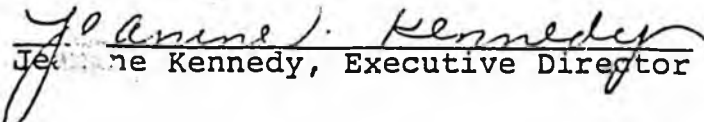
RESOLVED: that the Board of Directors of the Rural Alaska Community Action Program hereby endorses the attached position which urges the Governor and Legislature to establish a task force and a set of criteria to govern the distribution of all oil overcharge restitution funds which are received by the state, and

be it further

RESOLVED: that the Department of Community and Regional Affairs be directed to proceed with this process as soon as possible.

ADOPTED this 17th day of December, 1986 at the Annual Meeting of the Board of Directors held in Anchorage, Alaska.

  
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Gordon Jackson, President

  
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Jeanne Kennedy, Executive Director

# Rural Alaska Community Action Program, Inc.

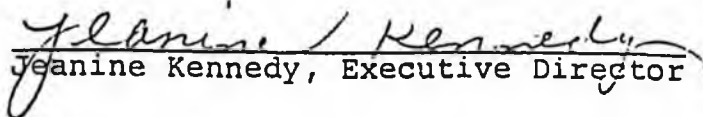
RESOLUTION # 86 - 30

- ENTITLED: URGING THE USE OF STATE FUNDS OR NON-EXXON OIL OVERCHARGE RESTITUTION FUNDS TO SUPPORT THE LOW INCOME WEATHERIZATION PROGRAM.
- WHEREAS, the weatherization program continues to help ease the burden of high energy costs in rural Alaska, and
- WHEREAS, the State of Alaska has previously supplemented Federal allocations in order to make this program more effective in Alaska, and
- WHEREAS, in 1986-87 this program was funded almost exclusively with Exxon overcharge restitution funds rather than State funds, and
- WHEREAS, Exxon funds must be spent in accordance with Federal Department of Energy guidelines, and
- WHEREAS, these guidelines severely restrict the ability of this program to effectively meet Alaska's needs, and
- WHEREAS, other oil overcharge restitution funds which the state has received and will continue to receive (such as Stripper Well) do not have such limitations,
- now, therefore, be it
- RESOLVED: that the Board of Directors of the Rural Alaska Community Action Program urge the Governor and the Legislature of the State of Alaska not to use Exxon overcharge restitution funds as the only source of funding for the low income weatherization program in the future.

ADOPTED this 17th day of December, 1986 at the Annual Meeting of the Board of Directors held in Anchorage, Alaska.



Gordon Jackson, President



Jeanine Kennedy, Executive Director