

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988

5358 SLAB

SB 81 - SB 92

8672

930

II. SUBCOMMITTEE REPORTS

- Problems Addressed by the Advisory Committee
David Hutchens, ARECA
- Power Equalization
Loyd Hodson, Chairman
- Capital Requirements for Rate Equalization
Tom Stahr, Chairman
- Organization
Robert Martin, Chairman

PROBLEMS ADDRESSED BY THE ADVISORY COMMITTEE

by David Hutchens, ARECA

DISPARITY IN ELECTIC RATES

Alaska has a far greater disparity in electric rates than any other state in the country. Dependent on where you live in Alaska, you could be paying anywhere from less than 6 cents per kilowatt hour to over 50 cents per kilowatt hour for electricity. For example, residents in Anchorage are enjoying a rate for electricity that is below the national average; however, residents of rural villages served by the Alaska Village Electric Cooperative are paying over 44 cents per kilowatt hour for electricity, or nearly 8 times as much as Anchorage residents pay.

The primary reason for the low cost of electricity in the Anchorage area is the price utilities are paying for natural gas. In 1965, Chugach Electric, now serving some 60,000 consumers in the Anchorage area, signed long-term contracts to purchase natural gas from the Cook Inlet fields. The price for this natural gas is now 26 cents per thousand cubic feet. As a result of those contracts, Chugach Electric has one of the lowest costs for fuel of any utility in the country. The same natural gas, if purchased today, would cost about \$3.00 per thousand cubic feet. Unfortunately, neither the contracts nor the Cook Inlet supply of natural gas will last forever. By the year 1990, it is expected that Chugach Electric and Anchorage Municipal Light & Power will

have to find new sources for natural gas or an alternative source of fuel. The cost of fuel to Anchorage utilities will increase dramatically by the end of this decade.

Alaska residents in rural areas of the state, except Barrow, have never enjoyed the benefits of low-cost natural gas. Because of the remote locations of many villages and the cost of transporting fuel, diesel powered generation of electricity has proved to be the least expensive alternative. Even today, despite the high cost of diesel fuel, studies have shown there is no commercial technology available to most rural Alaska utilities that is more economical than diesel. No matter what source of energy is used to generate power, it is very expensive to provide electricity to rural areas of Alaska.

PROBLEMS ASSOCIATED WITH HIGH COST OF ELECTRICITY

This disparity in electricity rates is a significant contributor to Alaska's uneven economic development. There are relatively few industrial or commercial businesses operating outside the urban areas of Alaska. Of course, the high cost of energy is not the only reason for the lack of development in rural areas, but extremely high electricity costs are a major factor. It takes a large amount of electricity to meet the power requirements of an industrial consumer, such as a fish processing plant. There are a number of coastal Alaska communities that could benefit from the establishment of a fish processing facility in their communities. But because of the high cost of power, processors have generally avoided such investments. It is economically

advantageous for processors to either fly their fish southward for processing or to transfer fish to large off-shore ships-- usually foreign--which serve as processing factories.

Another business that suffers because of the high cost of electricity is the retailer. A grocery or general store in rural Alaska must deal not only with the high cost of transportation, but the high cost of electricity as well. Many rural villagers find it less expensive to order their supplies from either Anchorage or Fairbanks than to purchase their supplies from the local merchant. Partly because of the high cost of electricity, the rural business is at a great disadvantage in competing with urban retailers for local sales.

Rural Alaska villagers have been unable to take full advantage of electrical service. Because of the high cost of electricity in rural areas, villagers must limit their electric consumption to minimal needs. Some of the more common appliances routinely used in urban areas are just too costly to use in rural Alaska. Residential consumers in areas served by the Alaska Village Electric Cooperative averaged using only 209 kilowatt hours per month during 1983. At the same time, residential consumers in Anchorage served by Chugach Electric had an average use of 842 kilowatt hours per month in 1983. The cost today of those 209 kwh to rural Alaskans is \$96.35 while the cost of 842 kwh to Anchorage residents is only \$50.52. That's four times the electricity at half the cost.

Legislators representing rural Alaska have long recognized the disparity in power costs within the state. Over the past few years, rural lawmakers have successfully sponsored assistance programs designed to provide some financial relief to rural residents burdened by the high cost of electricity. The most recent of these programs to be implemented is the Power Cost Equalization Program (PCE). Legislators approved PCE during the 1984 session and appropriated \$27 million to fund the program through FY 1985. The program does provide considerable assistance to rural residents and in some cases has cut many villagers' electric bills in half. But Power Cost Equalization is not a long-term solution to the problem of high electricity costs. The reason is two-fold. First, the program is totally dependant on legislative appropriation. Each year the legislature must examine the program and judge whether or not it should be funded. Depending upon the mood of lawmakers in Juneau, the program could be eliminated at any time leaving rural Alaskans without the assistance they have come to depend upon. The second problem with this program is the limit placed on the number of kilowatt hours that can be considered for assistance. A consumer may only receive aid under the program for the first 750 kwh used in a one month period. This is adequate for residential consumers, but it does not give significant assistance to industrial and commercial consumers. 750 kwh is only a fraction of the power used by most industrial consumers, so this program provides little incentive for such businesses to establish or maintain operations in rural areas.

NEED FOR A STATEWIDE ENERGY PROGRAM

To resolve the energy problems we face in Alaska, the state must develop a comprehensive statewide energy policy and program. During the last ten years the legislature and the successive administrations have dealt only with local or regional problems. In addition to the PCE program, another example of this approach is the four-dam pool. Local communities in southeast and southcentral Alaska wanted the state to assist with the construction of four hydroelectric projects to serve their communities. A strong lobby effort won approval for the projects, and the state has now invested more than \$400 million in the four-dam pool. This provides residents in the five affected communities with the opportunity to have low-cost, or at least stable cost, electricity well into the next century. However, this left other areas of the state without such promise, and residents not directly served by those projects can see no benefit to themselves from their construction. Bradley Lake and the Susitna hydroelectric projects have been identified as the lowest cost alternatives over the long run to supply power to the railbelt region. These projects will require substantial state assistance in order to avoid rate shocks to the consumers in the early years of their operation. Regionalism which persists in the absence of a statewide energy program threatens the construction of these projects just as it threatens the continuation of the PCE program.

REPORT OF SUBCOMMITTEE ON POWER EQUALIZATION

by Loyd Hodson
Subcommittee Chairman

Definition of Problem

Electric rates across the State of Alaska have a far greater disparity than any other state in the United States. Average retail revenue per kilowatthour rates in Alaska range from a low of some 5¢/KWH to a high well in excess of 50¢/KWH on a true cost basis in many small isolated village communities. This range of 1,000% change compares to Nebraska where the differential across the state is only some 20%. Rate disparity of this type is causing severe restriction on usage in certain communities where the full benefits of electricity are not being derived. Perhaps more important is the fact that many opportunities for short and longer term economic development could be substantially boosted by lower cost electric energy. The full benefits of an improving educational system will not be realized unless more communities have lower cost electrical energy available to encourage economic activity, resultant jobs and ultimately more self sufficiency..

Areas of Rate Equalization Investigation

The Committee studied three possible basis for cost impacts of various equalization methods. These were:

1. A postage stamp without usage limit at the retail level.
2. A postage stamp with usage limit at the retail level.
3. A blended postage stamp rate considering power production and transmission costs only at the point of delivery to a distribution system.

The Results

1. The Postage Stamp at Retail: The results of this study are attached and identified as Table I (left hand columns). The overall average retail costs would currently be approximately 8.2¢/KWH. Estimated percentage changes in retail rates to achieve this are estimated.

Advantages of this Approach:

- a. This approach assures absolute equity in electric rates across the entire State of Alaska.
- b. There would be virtually no regional restraints to feasible power production capital investment in any area of the State since reduced overall costs would benefit all segments of the population.
- c. There would be a much more uniform climate for economic development across the entire State of Alaska as much as the cost of electricity is one of the key elements in economic development.

Disadvantages of this Approach:

- a. This structure is substantially the most expensive initially.
 - b. Both the direct equalization and capital costs would go up substantially more than the initial cost due to substantially increased demand that would be created in many areas of the State.
 - c. This rate is at a level that would encourage the use of local space heat in many areas of the State which are heated by oil causing wasteful and inefficient conversion of diesel fuel into electricity and back into heat.
 - d. This in turn would result in very substantially increased capital requirements for generation and distribution in some of the smaller non-interconnected utilities in the near term. The program would have to be initiated in phases to prevent a cascading of rapid and overwhelming requirements for increased generation capacity in a large number of smaller isolated diesel generator served communities.
2. Postage Stamp at Retail with Usage Limit: After initial consideration, this approach was not explored in depth since of the disadvantage of not creating an improved climate for economic development if there was a limitation on all consumers of 750 KWH usage per month. While this solves the rate problem for the residential consumer, it does little for the bigger problem of trying to establish more favorable rates for economic development.
3. Blended Postage Stamp Rate: The plan believed to be most desirable in the world of economic reality and achievability was determined to be a blended rate at the power production level. Costs would be allocated on an acceptable accounting basis to establish comparable power production cost in all cases. The overall average state production bus bar is estimated to be 5.0¢/KWH, based on CY 1983 data. Projections to the current time would not change the figure more than an estimated maximum of 0.2¢/KWH.

Advantages of this Approach:

- a. This approach is less costly than the alternative of an average postage stamp rate at retail in both the short term and the long term.
- b. There would still be some retail price restraints on high usage of electricity in the state.
- c. The resultant retail rates would by and large be above levels that could result in costly use of space or installed electric heating and resultant massive need for quick increases in remote generation unit investments.
- d. Since all State entities would be interested in holding the overall average power costs down, there would be increased interest in larger, more efficient generation facilities, which would benefit all consumers across the State to some degree.

- e. It also has the advantage of creating a much more desirable climate for economic development, since there would not be a cut off at 750 KWH per month per consumer as under the current program.
- f. Overall cost of living could be reduced in outlying areas.
- g. Cost of school operations would be lowered in many areas.

Disadvantages of this Approach:

- a. There is no significant disadvantages of this approach compared to other areas investigated, other than the general point that the overall package must have equity to become attractive in all parts of the State in the form of the proper blend of short, intermediate and long range benefits for general acceptance.

Potential Problem of Electric Heat

There needs to be more understanding of potential for problems associated with electric rates that encourage space heating with electricity in many remote Alaska communities served by diesel generation. Items causing the situation in remote communities to be different are the following:

1. The heating fuel of choice is #1 (or #2) heating oil for the overwhelming majority of new homes, public facilities, schools, etc. In a few areas there is a fair amount of heating by wood. Natural gas for heating is not available with the exception of Barrow.
2. High delivered retail price of diesel fuel oil makes electric heat attractive if electricity is priced at a low enough level (see attached chart, "Heating & Break Even Points, No 1 Heating Oil vs. Electricity").
3. The efficiency of conversion of the oil into heat is a key factor in the relative desirability of electricity for space heating. The higher the oil furnace efficiency, the lower retail electric prices can be without crossing the point to encourage electric heat.

The conversion of electricity into heat is considered to be 100% efficient; all of the energy from heating elements is released within the heated space. In the case of oil fired furnaces, the efficiencies generally range from from a low of 35% to 75% in some new systems. For purposes of calculation, an efficiency value of 50% selected for a "pot" type furnace. Newer "gun" type oil furnaces range near 65-75% efficient.

In many coastal or railbelt communities in Alaska, the retail delivered price of heating oil is in the vicinity of \$1.25 per gallon. Typical retail delivered price in villages s currently \$1.90 per gallon. However, a few communities pay as much as \$3 per gallon. In addition, in large areas of the railbelt, natural gas is available for heating, which is much more competitive for space heat than oil or electricity in virtually all cases.

Placing the retail price of electricity below the level of equivalent oil heating can cause severe problems. This would result in a rapid increase in electrical

demand or smaller isolated systems requiring major increased investment in diesel generation capacity.

Where excessive hydro generated electricity is available, the case could be made for use of power for electric heat to save other energy. However, this is definitely not true where you must put in diesel power generation to supply electric heating needs. The energy conversion efficiency is very low, much worse than even the poorest pot-type stove.

This problem is particularly aggravated in the outlying areas of Alaska. In a typical village of 600 people, the peak winter load is currently running near 300 KW. This is for all uses of electricity, including the schools, public facilities, water and sewer, communications, business, etc. There would be approximately 150 homes served by electricity. A plug-in electric space heater rated at 1500 watts (1.5 KW) can be purchased for \$50. Units for four rooms would cost \$200 and can be plugged in immediately representing 6 KW of new load per household. A total of 900 KW of new load. Adding this to the 300 KW, we arrive at 1200 KW of DEMAND on a cold winter evening, or FOUR times the current peak load capability. Plug-in heater use would be virtually impossible to control by regulation in residences. Further, substantial portions of this load could be connected very rapidly in only two or three weeks time, since the portable electric heaters could arrive from mail order houses in that time. 6 KW demand stated per household is a relatively low estimate of actual potential heating load if electricity at retail would be priced below the break even point to make usage desirable relative to heating oil.

All small community diesel generation facilities, and much of the distribution systems, would have to be replaced with considerably larger facilities. The answer to this problem is for the retail price of diesel generated electricity to be at not less than 20% above the break even point for oil heat. Electric heat has advantages over oil to require some differential, including lower initial cost of electric heating units and no oil to store or handle, etc.

The program proposed will provide resultant retail rates that generally avoid this problem since market price signals are still present. If retail rates are much lower, then consumption restrictions or inverse rates would need to be considered. This type of measure could defeat one primary purpose of allowing high usage required by many business at improved rates to create a much improved opportunity for community economic activity.

There will be load growth under the proposed program, but at a much more orderly pace in accordance with valid community growth and increasing business activity.

How to Control Possible Abuses

One question is, "how do you maintain some reasonably uniform level of service in various types of communities without abusive and inefficient operation and maintenance practices?" Due to inherent limitations on smaller generation units, the quality of power will not be the same in smaller communities as it is in the larger communities, nor is the type of around the clock manning affordable to give the same reliability as in larger communities. However, with the proper planning and initial investment, even small community unmanned plants can have power reliability in the order of 99% or better. Achieving the last 1% of

reliability, or to attempt to tighten other operating parameters to an excessive degree, is extremely expensive.

There might be a possibility that a very small community might wish to provide employment for full time around the clock Operators. This will not stand the test of independent economic feasibility review in a small community. However, in some communities this is being done, for instance, the North Slope Borough as a matter of policy. However, true electric rates become very high under these conditions. The Borough through tax revenue does subsidize rates down to a reasonable level. The balance of the state will not likely be willing to provide funds for unreasonable high levels of O&M costs.

Alaska Village Electric Cooperative, Inc. is an example of a reasonably low cost operation with cost constraints serving many outlying areas and represents a sampling of a large number of small communities and conditions encountered. Therefore, AVEC's experience and accurate accounting records can give a good idea of typical true costs of operation over a number of years. Records from AVEC, or the Tlinglet-Haida Electric Authority in Southeast as examples, can provide a reference basis for reasonable costs. A band of reference costs can then be developed for communities of similar size and geographic/environmental conditions.

Here and to the point are possible major areas of abuse and a suggested method of control:

1. Unreasonably high O&M costs per capita or unit of output.
2. Excessive assignment of expenses to assisted cost segment.
3. Too high or non-feasible capital expenditures.

The group recommends that a committee of Electric Utility Managers be selected and empowered to make judgements on these matters. A panel of not less than seven Electric Utility Managers representing a good cross section of the state would be appointed to this committee. They would meet periodically to establish initial standards and to monitor possible areas of abuse as determined from reported data or as otherwise addressed to the group. The committee, by majority vote of a quorum, would make decisions in regard to whether questionable expenses should be allowed or further investigated. If closer investigation expenses were outside of an acceptable range of reasonable standards, then the community or organization involved would be asked to voluntarily bring costs more in-line. After a reasonable period of time for corrective action, costs would be disallowed outside of the established tolerance band established for communities with similar personal characteristics and size range.

There could be a further ultimate appeal to a higher level of authority for absolute, final binding determination of any disputed findings of the Manager's Committee. This could be either directly to the APUC Commissioners or as an alternative an "Energy Czar" type of person, similar to a baseball commissioner. This would basically be in the form of a selected arbitrator well versed in utility operations and maintenance and fiscal matters to assure timely, intelligent and fair decisions. Ideally, the person would be familiar with diesel generation utilities since most questions will be in this area.

Improper assignment expenses could best be controlled by a carefully considered format of what expenses should be assigned to each category. Basically, all utilities, even in the smaller communities, should set up some standards for cost accounting so that expenses fall into proper general categories. Also, there should be uniform treatment in regard to payment for insurance or self-insured risk, depreciation reserves and/or proper allowances for future capital needs. Many of the plants in smaller communities have been constructed with donated state capital. Generally, no provision is currently being made in the rates for replacement purposes. This problem needs to be separately studied and addressed. The Committee feels that this would be an ideal task for Alaska Public Utilities Commission or such qualified auditing firms that might assist.

This is a real serious problem for many smaller utilities across the state and needs to be addressed. In addition, this causes artificial rate differences compared to utilities that maintain books as perpetual entities with the ability to borrow in the future, including some equity buildup. Contrast this with utilities that have no margin (TIER) requirements and no provision in the rates for depreciation costs, no interest costs, are running without insurance, either property or liability, as examples requiring more uniform control and cost accounting.

Accounting on a uniform basis, it would soon become evident that generally utilities operating as a group are more efficient than small individual independent utilities. This structure is even more important when continuing capital requirements into the next century for future generation and distribution systems to meet new requirements and for replacements are considered as state revenues diminish. There is considerable misinformation and misunderstanding about this developing situation requiring clarification. If not, many small utilities will simply continue to run until there is no longer any state money available and then cease to operate. In the near future, State grants will probably not be available, hence the need to roll into a much more orderly program across the state, as is suggested by the overall thrust of this Report.

The primary idea of this review committee, with powers of initial or final judgement, is to use a combination of persuasion and assistance to keep the overall average power costs across the state at a fair level without excessive abuse at any level where others would be required to pay the bill for gross inefficiencies or abuses. If a cross subsidization program is to work, controls of this type are felt to be absolutely essential and mandatory. If not, horror stories of abuses will soon tear down the integrity and therefore support for the overall program concept.

Community Size

Another area of investigation of this Sub-Committee on Power Equalization was related to "what should be the lower cutoff size of a community for participation in the program?" Possible areas of definition include:

1. A census count of at least 50 from the latest U.S. census.
2. Census data from Community & Regional Affairs' definition of communities by organization types, such as municipality, first class city, IRA, etc.

3. There must be at least enough school age population for at least one teacher and an organized school.
4. Other areas can center on definition by the number of family dwelling units or so many dwelling units within a certain area.

The Committee obtained a list of communities organized as second class cities or higher from the Community & Regional Affairs based upon December 31, 1983 population (attached). The total population therein is estimated at 497,822. Included in this figure is the population from the unorganized areas of six boroughs totaling 96,526 people. The overall estimated Alaska population on December 31, 1983 was 516,324 people. Other statistical data was related to the estimated average size of Alaska households presented as 2.93 persons.

Next, the Committee took the number of residential hookups from all of the listed utilities in the statistical base and came up with a total of an estimated 162,000 residential consumers connected on all the utilities in the state as of December 31, 1983. Next, multiplying that number by the afore mentioned 2.93 persons per household, arriving at the maximum number of 474,660 as the estimated number that would be covered under the program out of the total state population of 516,324. The balance of perhaps 41,664 persons, or 14,220 households, might not be directly affected except by future lower costs of goods and services purchased in many communities.

End to End Equity

The Committee believes that we should target to have end to end equity in the State of Alaska, and also discourage attempts at very small 24 hour a day utilities where they may not be economically sound and resultant very high subsidies. This can best be done by having a method of direct payment to people that are not tied onto one of the regular utilities.

The recommended method of handling this is to determine the average benefit cost to consumers of a large representative isolated utility, such as Alaska Village Electric Cooperative, Inc., on the basis of the average benefits per household per year. That is a differential between the retail rate and what the true total costs basis would be, multiplied by the average kilowatthour usage per residential service per year. This figure could be adjusted periodically after data is available and standards established for a new period. For instance, the data from CY 1985 could be used to establish standards that could be effective for payment in a fiscal year starting July 1, 1986, or Calendar Year 1987.

The proposed method of administration would be similar to the way the Permanent Fund Dividend Program is handled through the Department of Revenue. Generally, the feeling is that the PFDP forms have been well human engineered with clear instructions and a similar program could be set up. Penalties for abuse should also be very severe to hold down the necessary cost of enforcement.

Additional analysis needs to be determined as to the exact number of people eligible for this program. From the above data, a quick estimate is that there might be 14,220 households possibly eligible, based on average figures applied uniformly across the state. Based upon an assumed maximum possible benefit level of approximately 28¢/KWH and statistical data from AVEC using an average of 225

KWH/month/residential consumer x 12 months x the number of households, leads to the initial annual cost of this segment of the program of approximately \$10,750,000. This number is very likely high. This data should be refined with more time and analysis by Community & Regional Affairs or other staff elements. The impacts of military populations must be investigated. Also, the benefits may need to be scaled to the equivalent energy rates in certain zones of residence to parallel actual retail rate differentials in the zone. This could reduce the approximate maximum cost listed. With this provision of payment, then smaller groups of two, three or four families would more likely opt for the most efficient way to handle their energy needs in very small clusters rather than attempt to qualify an around the clock utility with resultant very high costs. It may very well be that ultimately some standards may need to be established regarding just how small a community could be involved. This could best be determined with some experience with a program such as a comparison of the costs of direct payment to approximately 16 families individually, versus the combined population of approximately 50 people running a small village utility around the clock and the overall resultant cost impact. It is a well supported fact that the average cost per kilowatthour across the state tends to go up as the size of the communities go down. This concept requires further investigation but some payment to most persons not served by electric utilities is recommended.

Summary

In summary, we recommend that the State go to a program that would bring a blended power production costs at the power plant transmission substation bus bar to a uniform state-wide rate. The projection of this initial blended rate is 5.0¢/KWH. The retail rate to the consumer would represent, in addition to this, the other cost elements primarily related to the distribution systems, consumer account expenses and the remaining administrative and general costs, plus margins.

A table of possible net resulting retail rates under this program is attached hereto as Table I (right hand columns). The Committee recommends that an Electric Utility Management group be set up for the purpose of establishing reasonable service standards and management practices under diverse Alaskan conditions with a minimum expenditure of time and effort. Choices for possible source of appeal to higher authority can either be a High Commissioner set up specifically for this purpose to arbitrate and make final decisions in regard to reasonableness or directly to the APUC Commissioners. The first would be the most efficient, considering the other case load of the Commission.

The Committee further recommends that a program be further investigated to reimburse Alaska residents who do not live in areas served by electric utilities to receive some benefit upon application under rules established by the Department of Revenue.

Implementation of this program will ensure lower cost electric rates at levels that affordable far into the future for all Alaskans. Wider support of large scale capital projects required to pull down overall state power costs into the future will be established since all citizens would benefit to some degree in the future with continued lower average power production costs.

A much improved climate for economic development across the State of Alaska will be created. Competition between individual communities, solely based upon electric rates, will be minimized substantially. Larger communities will generally still enjoy lower electric rates due to the effects of the economy of a large scale operations, but the ratio of rates across Alaska will be substantially reduced more in line with ratios that may be typical in other states.

TABLE 1
ALASKA ELECTRIC UTILITIES
1983 FINANCIAL OPERATING STATISTICS
(CENTS/KWH)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	OPERATING REVENUES/KWH SALES					PRODUCTION & TRANSMISSION COSTS/KWH GENERATION						
UTILITY NAME -	OPERATING REVENUES (\$000)	ENERGY SALES (MWH)	RETAIL RATE (CENTS/KWH)	VARIANCE (\$000) (PERCENT)		PROD/TRANS COSTS (\$000)	ENERGY GENERATION (MWH)	BUSBAR RATE (CENTS/KWH)	VARIANCE (\$000) (PERCENT)		RETAIL RATE (INCR/DECR) (PERCENT)	REVISED RET. RATE (CENTS/KWH)
FOUR DAM POOL AREA												
COPPER VALLEY (CVER)	5,887.5	44,389	13.3	(2,227)	-37.8	4148.5	50117.0	8.3	(1,625)	-39.2	-27.6	9.6
KETCHIKAN (KPI)	7,743.7	85,833	9.0	(665)	-8.6	5946.6	99762.0	5.9	(328)	-15.6	-12.0	7.9
KOOTIK (KEK)	9,147.0	55,882	16.4	(4,538)	-49.6	7375.8	61007.0	12.1	(4,313)	-58.5	-47.2	8.6
PETERSBURG (PMPAL)	2,634.5	20,228	13.3	(1,826)	-38.1	2289.8	22821.0	10.4	(1,184)	-51.7	-44.0	7.5
WAINCELL (WMLP)	1,684.0	11,522	14.6	(734)	-43.6	1482.5	13367.0	10.5	(731)	-52.2	-43.4	8.3
TOTAL FOUR DAM POOL	27,156.7	217,854	12.5	(9,190)	-33.8	21155.2	246474.0	8.6	(8,782)	-41.5	-32.3	8.4
RAILBELT AREA												
ANCHORAGE (AMLAP)	34,725.1	636,817	5.5	17,793	51.2	24349.7	672,468	3.6	9,480	38.6	27.1	6.9
CHUGACHI ELECTRIC (CEA) (1)	189,520.7	1,666,660	6.5	28,928	26.7	54709.0	1,851,712	3.0	38,248	69.9	35.2	8.8
FAIRBANKS (FMU)	18,900.0	146,040	7.5	1,141	18.5	18289.2	155,500	6.6	(2,483)	-24.1	-32.8	5.8
GOLDEN VALLEY (GVER)	34,516.1	343,668	10.0	(6,174)	-17.9	22059.8	316,233	6.4	(4,679)	-21.2	-13.6	8.7
TOTAL RAILBELT	188,661.9	2,793,145	6.8	41,687	22.1	111407.7	3,825,913	3.7	48,494	36.3	21.5	8.2
SOUTHCENTRAL AREA												
CHITSTINA (CTP) (2)	172.8	450	38.4	(136)	-78.5	127.8	500	25.6	(183)	-88.4	-59.4	15.6
CORDOVA (CEC)	3,269.6	15,991	20.4	(1,951)	-59.7	2546.2	17,434	14.6	(1,671)	-65.6	-51.1	18.0
LARSEN BAY (LBS) (2)	183.7	270	38.4	(81)	-78.5	76.7	300	25.6	(62)	-88.4	-19.4	15.6
PAXSON LODGE (PL) (2)	259.2	675	38.4	(204)	-78.5	191.7	750	25.6	(154)	-88.4	-53.4	15.6
TOTAL SOUTHCENTRAL	3,885.3	17,386	21.9	(2,371)	-62.3	2942.4	18,984	15.5	(1,989)	-67.6	-52.3	18.4
SOUTHEAST AREA												
ALASKA ELECTRIC (AELAP)	10,012.2	169,000	5.9	3,725	39.2	6536.3	189,000	3.5	2,952	45.2	29.5	7.7
ALASKA POWER (APIT)	2,375.3	14,836	16.1	(1,172)	-48.9	2158.9	17,363	12.4	(1,279)	-59.5	-53.4	7.5
GLACIER HIGHWAY (GHER)	1,873.1	16,838	11.1	(484)	-25.9	932.1	18,000	5.2	(28)	-3.1	-1.5	11.0
HAINES (HALP)	1,201.6	7,336	16.4	(597)	-49.7	1074.5	7,855	13.7	(680)	-63.3	-56.6	7.1
MUKWAM (KEU) (2)	183.7	270	38.4	(81)	-78.5	76.7	300	25.6	(62)	-88.4	-59.4	15.6
METLAKATLA (MPL)	1,190.6	14,590	8.2	13	1.1	925.0	16,588	5.6	(92)	-18.0	-7.8	7.5
PELLIDM (PUC)	257.6	2,440	10.6	(56)	-21.9	224.1	2,685	8.3	(89)	-39.9	-34.7	6.9
SITKA (SED)	5,685.5	82,488	6.8	1,197	21.4	7251.8	98,101	8.0	(2,729)	-37.6	-48.7	3.5
TENIKEE (TSU) (2)	69.1	180	38.4	(54)	-78.5	51.1	200	25.6	(41)	-88.4	-59.4	15.6
THORNE BAY (TB) (2)	483.8	1,260	38.4	(308)	-78.5	357.9	1,400	25.6	(288)	-88.4	-59.4	15.6
TLINGIT-HAIDA (THREA)	2,727.4	7,896	38.4	(2,142)	-78.5	1995.3	7,884	25.3	(1,599)	-88.2	-58.6	15.9
YAKUTAT (YPI)	768.0	4,195	18.1	(414)	-54.5	617.9	4,635	13.3	(385)	-62.3	-58.7	8.9
TOTAL SOUTHEAST	26,679.9	320,529	8.3	(246)	-8.9	22133.6	355,011	6.2	(4,322)	-19.5	-16.2	7.8

ALASKA ELECTRIC UTILITIES
1993 FINANCIAL OPERATING STATISTICS
(CENTS/KWH)

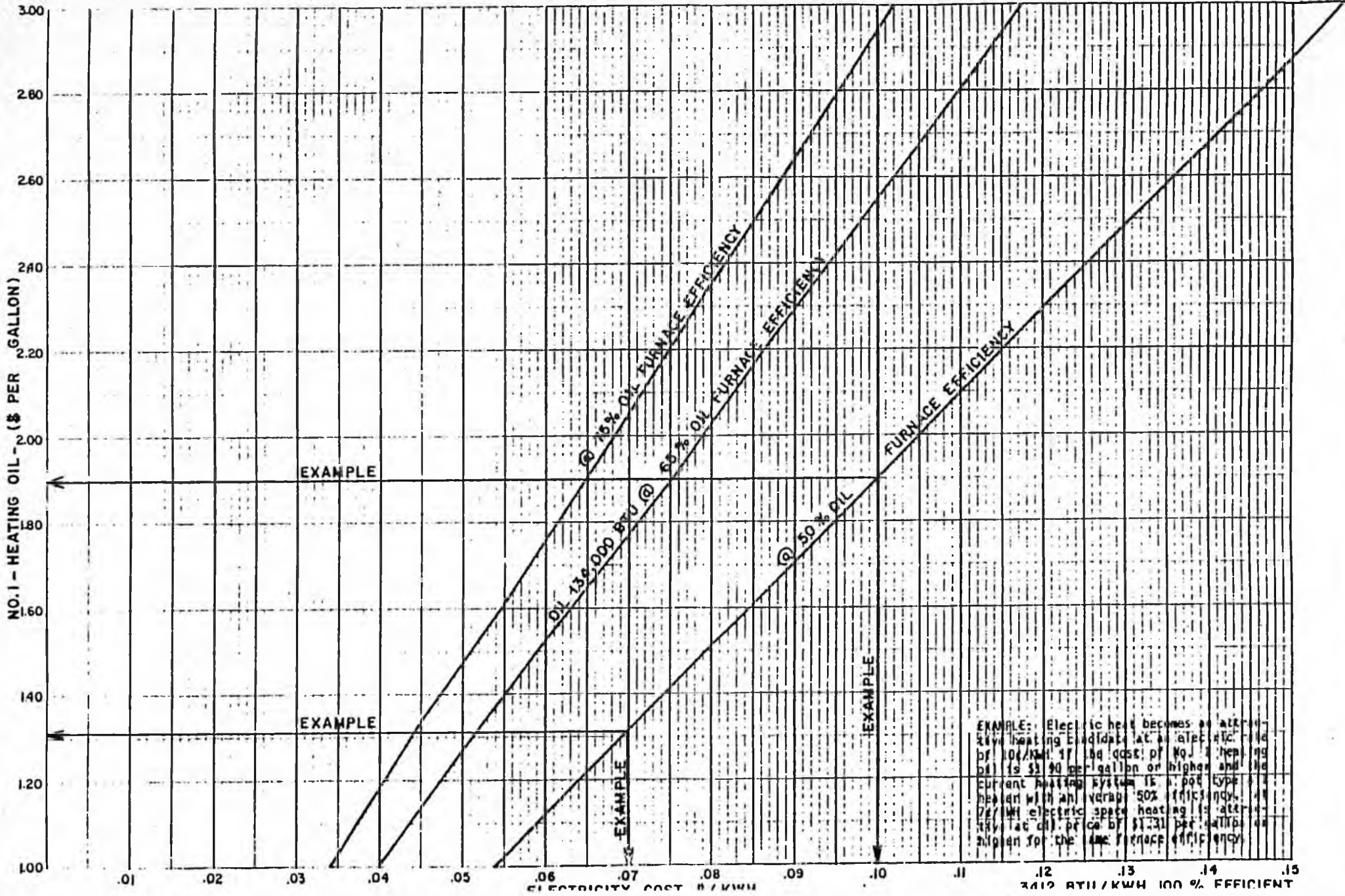
UTILTY NAME -	OPERATING REVENUES/II SALES					PRODUCTION & TRANSMISSION COSTS/WHI GENERATION						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
OPERATING REVENUES	(1000)	(MM)	(CENTS/KWH)	(1000)	(PERCENT)	PROD/FINMS ENERGY	GENERALTY RATE	(CENTS/KWH)	(1000)	(PERCENT)	RETAIL RATE	REVS/D
SALES	(1000)	(MM)	(CENTS/KWH)	(1000)	(PERCENT)	(MM)	(MM)	(CENTS/KWH)	(1000)	(PERCENT)	IMPROVED RET. RATE	
ALASKA VILLAGES (SPEC)	11,001.3	24,503	44.8	(8,974)	-81.6	8374.5	28,305	29.6	(6,954)	-23.8	-63.2	16.5
ALASKA (SPEC)	455.3	1,343	33.9	(345)	-75.7	396.1	1,400	28.3	(326)	-82.3	-71.6	9.6
ALASKA (SPEC)	23.1	100	21.4	(14)	-61.5	17.9	120	14.9	(12)	-63.3	-51.2	10.4
BARROW (SPEC)	1,682.7	10,715	9.0	(139)	-8.3	610.9	22,822	2.7	527	85.2	31.3	11.8
BETHEL (SPEC)	4,142.1	22,863	10.1	(2,257)	-54.5	3634.1	23,160	15.7	(2,471)	-88.0	-59.7	7.3
BETTLES (BAR)	466.9	827	49.1	(337)	-87.2	292.7	1,150	25.5	(235)	-80.3	-57.7	20.7
CHITINA (SPEC)	682.7	3,190	21.4	(420)	-61.5	527.6	3,545	14.9	(350)	-66.3	-51.2	10.4
CIRCLE (SPEC)	30.5	30	42.8	(31)	-80.7	29.8	100	29.8	(25)	-83.1	-64.2	15.3
DEANWALDSE (SPEC)	4,294.5	16,600	25.9	(2,926)	-68.1	3446.2	17,500	19.7	(2,568)	-74.5	-59.8	10.4
DILLINGHAM (SPEC)	2,101.3	10,193	71.4	(1,541)	-61.5	1665.9	11,203	14.9	(1,119)	-66.4	-51.3	10.4
DUTCH HARBOR (SPEC)	38.5	100	21.4	(24)	-61.5	29.8	200	14.9	(20)	-66.3	-51.2	10.4
EGBAIC (SPEC)	67.6	150	42.8	(55)	-80.7	52.3	175	29.9	(43)	-83.2	-64.3	15.3
F1 YUKON (FYU)	1,853	34.3	(484)	-76.0	-76.0	522.5	2,123	24.5	(416)	-73.5	-65.3	11.9
GALENA (BAR)	57.3	1,303	30.1	(412)	-70.3	464.6	1,537	30.2	(307)	-83.4	-73.6	10.8
HUGHES (SPEC)	61.6	144	42.8	(50)	-80.7	47.6	160	29.8	(40)	-83.1	-64.3	15.3
ILLIUM (SPEC)	524.4	1,314	42.8	(454)	-80.7	434.7	1,460	29.8	(361)	-83.1	-64.3	15.3
KING COVE (SPEC)	69.3	324	21.4	(43)	-61.5	53.6	360	14.9	(36)	-66.3	-51.2	10.4
KOTIK (SPEC)	179.3	419	42.8	(145)	-80.7	138.6	466	29.7	(115)	-83.1	-64.2	15.3
KOTZIE (SPEC)	2,704.8	11,097	23.4	(1,804)	-64.8	2466.6	13,660	18.0	(1,700)	-72.2	-63.9	8.4
KWAIK (SPEC)	154.1	360	42.8	(124)	-80.7	119.1	400	29.8	(99)	-83.1	-64.3	15.3
LONG MICHIGAN (SPEC)	77.0	100	42.8	(62)	-80.7	59.5	200	29.8	(50)	-83.1	-64.3	15.3
MARLEY HOT SPRINGS (SPEC)	77.0	100	42.8	(62)	-80.7	59.5	200	29.8	(50)	-83.1	-64.3	15.3
MARSHALL (SPEC)	62.7	293	21.4	(39)	-61.5	48.5	325	14.9	(32)	-66.3	-51.3	10.4
MERRITT (SPEC)	771.6	2,413	32.0	(573)	-74.2	706.6	2,001	24.5	(562)	-73.5	-72.0	8.7
MORAN (SPEC)	2,714.3	11,923	22.0	(1,731)	-63.0	2055.7	13,963	14.7	(1,353)	-65.9	-49.9	11.4
MURKIN (SPEC)	495.9	1,051	21.4	(65)	-61.5	81.9	550	14.9	(54)	-66.3	-51.2	10.4
MURKIN (SPEC)	32.7	153	21.4	(20)	-61.5	25.3	170	14.9	(17)	-66.3	-51.2	10.4
MURKIN (SPEC)	3,618.6	17,734	20.4	(2,156)	-59.6	3423.0	19,207	17.7	(2,455)	-71.7	-67.8	6.6
NOOTNAM (SPEC)	310.0	1,169	26.5	(214)	-60.9	244.2	1,230	18.9	(179)	-73.5	-57.9	11.2
NOOTNAM (SPEC)	530.2	2,753	19.3	(303)	-57.2	500.4	3,059	16.4	(347)	-69.3	-65.4	6.7
NORTH STAR (SPEC)	3,195.0	7,465	42.8	(2,179)	-80.7	2463.3	8,294	29.8	(2,053)	-83.1	-64.3	15.3
NORTH STAR (SPEC)	23.1	54	42.8	(19)	-80.7	17.9	60	29.8	(15)	-83.1	-64.3	15.3
ROBERT (SPEC)	892.7	5,150	17.3	(1,67)	-52.3	853.0	5,504	15.5	(157)	-67.6	-64.6	6.1
SANDPOINT (SPEC)	584.5	1,505	31.0	(374)	-74.1	468.1	1,200	24.6	(133)	-73.6	-73.9	0.3
TANANA (SPEC)	231.1	540	42.8	(107)	-80.7	178.6	600	29.8	(149)	-83.1	-64.3	15.3
TELEA (SPEC)	801.3	2,790	31.6	(651)	-73.9	461.4	3,100	14.9	(306)	-66.3	-34.7	20.6
UNALASKA (SPEC)	44,016.8	171,431	25.7	(29,879)	-67.9	35005.8	100,229	10.6	(25,557)	-73.0	-50.1	18.0
TOTAL COST OF STATE												
TOTAL STATE	290,320.6	3,520,345	0.2	0	0.0	17,704.7	3,810,711	5.0	0	0.0	0.0	0.2

(1) PER, MER, AND SES COMBINED WITH DIRECTOR
(2) ESTIMATED

NOTES

<u>Column</u>	<u>Explanation</u>
1	Retail Operating Revenues - does not include wholesale power sales by Chugach.
2	Retail energy sales.
3	(Column 1/Column 2) x 100.
4	$\left(\frac{\text{Statewide Average Retail Rate} - \text{Column 3}}{100} \right) \times \text{Column 2}.$
5	$1 - \left(\frac{\text{Statewide Average Retail Rate}}{\text{Column 3}} \right).$
6	Includes operating costs and depreciation incurred in production and transmission accounts and allocations of interest and taxes to production and transmission. Also includes allocation of administration and general expenses and depreciation, interest, and taxes incurred by General Plant. A & G and General Plant expenses are allocated based on the ratio of the expenses in the remaining categories.
7	Energy Production before distribution losses.
8	(Column 6/Column 7) x 100.
9	$\left(\frac{\text{Statewide Average Rate} - \text{Column 8}}{100} \right) \times \text{Column 7}.$
10	$1 - \left(\frac{\text{Statewide Average Rate}}{\text{Column 8}} \right).$
11	(Column 9/Column 1) x 100.
12	(1 + (Column 11/100)) x Column 3.

HEATING - BREAK EVEN POINTS NO.1 HEATING OIL VS. ELECTRICITY



EXAMPLE: Electric heat becomes an alternative heating method at an electricity rate of 10¢/kWh if the cost of No. 1 heating oil is \$1.90 per gallon or higher and the current heating system is a pot type system heated with an average 50% efficiency. At 10¢/kWh electric space heating is attractive at oil prices of \$1.33 per gallon or higher for the 15% furnace efficiency.

MUNICIPAL POPULATIONS FOR BOROUGHES & CITIES
As of December 1983

Name	Organization	Population
Anchorage	Municipality	230,846
Unorganized Areas	Fairbanks/North Star Borough	37,274
Juneau	City & Borough	27,519
Fairbanks	Borough Subdivision - Fairbanks	27,103
Unorganized Areas	Mat-Su Borough	24,280
Unorganized Areas	Kenai Peninsula Borough	20,790
Ketchikan	Borough Subdivision - Ketchikan	8,414
Sitka	City & Borough	8,221
Kodiak	Borough Subdivision - Kodiak	6,072
Unorganized Areas	Kodiak Island Borough	5,825
Kenai	Borough Subdivision - Kenai	5,721
Valdez	First Class City	3,687
Bethel	Second Class City	3,681
Nome	First Class City	3,620
Unorganized Areas	Ketchikan Gateway Borough	5,557
Soldotna	Borough Subdivision - Kenai	3,353
Homer	Borough Subdivision - Kenai	3,237
Petersburg	First Class City	3,046
Kotzebue	Second Class City	2,981
Wasilla	Borough Subdivision - Mat-Su	2,944
Barrow	Borough Subdivision - North Slope	2,882
Unorganized Areas	North Slope Borough	2,800
Palmer	Borough Subdivision - Mat-Su	2,738
Wrangell	First Class City	2,376
Cordova	First Class City	2,307
Unalaska	First Class City	1,922
Dillingham	First Class City	1,896
Seward	Borough Subdivision - Kenai	1,871
Haines	Borough	1,847
Delta Junction	Second Class City	1,044
Northpole	Borough Subdivision - Fairbanks	934
Craig	First Class City	907
Sand Point	First Class City	889
Galena	First Class City	876
Hoonah	First Class City	865
Skagway	First Class City	790
Unalakleet	Second Class City	787
Mt. Village	Second Class City	666
Hooper Bay	Second Class City	651
Emmonak	Second Class City	641

Name	Organization	Population
Ft. Yukon	Second Class City	641
Kake	First Class City	631
Houston	Borough Subdivision - Mat-Su	606
Selawik	Second Class City	600
St. Paul	Second Class City	595
King Cove	First Class City	586
Nenana	First Class City	586
Pt. Hope	Borough Subdivision - North Slope	570
Atakanuk	Second Class City	564
St. Mary's	First Class City	563
Angoon	Second Class City	562
Togiak	Second Class City	545
McGrath	Second Class City	535
Chevak	Second Class City	528
Anderson	Second Class City	521
Noorvik	Second Class City	517
Seldovia	Borough Subdivision - Kenai	510
Klawock	First Class City	508
Kwethluk	Second Class City	507
Tanana	First Class City	485
Wainwright	Borough Subdivision - North Slope	483
Savoonga	Second Class City	477
Quinhagak	Second Class City	477
Gambell	Second Class City	464
Yakutat	First Class City	462
Aniak	Second Class City	459
Akiachak	Second Class City	451
Hydaburg	First Class City	429
Kotlik	Second Class City	413
Shishmaref	Second Class City	412
Pilot Station	Second Class City	404
Kasigluk	Second Class City	394
Nulato	Second Class City	382
Old Harbor	Borough Subdivision - Kodiak	375
Kiana	Second Class City	363
Toksook Bay	Second Class City	357
Nunapitchuk	Second Class City	353
Saxman	Borough Subdivision - Ketchikan	343
Stebbins	Second Class City	339
New Stuyahok	Second Class City	337

Name	Organization	Population
Tununak	Second Class City	327
Nuiqsut	Borough Subdivision - North Slope	324
Thorne Bay	Second Class City	316
Napakiaik	Second Class City	306
Manokotak	Second Class City	299
St. Michael	Second Class City	295
Shungnak	Second Class City	292
Port Lions	Borough Subdivision - Kodiak	291
Kachemak	Borough Subdivision - Kenai	287
Ambler	Second Class City	281
Fortuna Ledge	Second Class City	276
Tuluksak	Second Class City	272
Kivalina	Second Class City	272
Cheformak	Second Class City	268
Holy Cross	Second Class City	266
Eek	Second Class City	265
Whittier	Second Class City	263
Lower Kalskag	Second Class City	261
Napaskiak	Second Class City	260
Kaltag	Second Class City	257
Scammon Bay	Second Class City	251
Akiak	Second Class City	250
Cold Bay	Second Class City	250
Teller	Second Class City	247
Huslia	Second Class City	241
Atmautluak	Second Class City	239
Ouzinkie	Borough Subdivision - Kodiak	233
Ruby	Second Class City	233
Aleknagik	Second Class City	232
Atqasuk	Borough Subdivision - North Slope	231
Anaktuvuk Pass	Borough Subdivision - North Slope	228
Buckland	Second Class City	219
Goodnews Bay	Second Class City	215
Pelican	First Class City	213
Grayling	Second Class City	211
Elim	Second Class City	205
Kaktovik	Borough Subdivision - North Slope	203
Nondalton	Second Class City	200
Koyuk	Second Class City	198
Mekoryuk	Second Class City	192

Name	Organization	Population
Akutan	Second Class City	188
Newtok	Second Class City	181
Larsen Bay	Borough Subdivision - Kodiak	180
St. George	Second Class City	175
Allakaket	Second Class City	175
Russian Mission	Second Class City	175
Shaktoolik	Second Class City	171
Brevig Mission	Second Class City	159
White Mountain	Second Class City	158
Deering	Second Class City	158
Diomedea	Second Class City	154
Nightmute	Second Class City	145
Tenakee Springs	Second Class City	144
Eagle	Second Class City	142
Shageluk	Second Class City	142
Newhalen	Second Class City	133
Upper Kalskag	Second Class City	133
Wales	Second Class City	129
Chignik	Second Class City	124
Chuathbaluk	Second Class City	124
Golovin	Second Class City	121
Anvik	Second Class City	115
Nikolai	Second Class City	110
Sheldon Point	second Class City	107
Akhiok	Borough Subdivision - Kodiak	103
Hughes	Second Class City	99
Koyukuk	Second Class City	99
Port Alexander	Second Class City	98
Port Heiden	Second Class City	94
Kobuk	Second Class City	86
Clark's Point	Second Class City	80
Ekwok	Second Class City	78
Kasaan	Second Class City	70
Platinum	Second Class City	59
Kupreanof	Second Class City	50
	Total	497,822
	Overall State Population Estimate	516,324
	Average Household Size	2.93

CAPITAL REQUIREMENTS FOR RATE EQUALIZATION

By Tom Stahr, Subcommittee Chairman

Rate equalization alone will initially require transfer payments from the areas with low cost power to the areas with high cost power in the general range of \$40 million to \$50 million per year. With normal load growth and inflation this required transfer payment would increase to over \$600 million per year in nominal dollars by 2015. Price induced load growth as a consequence of rate equalization could increase this amount further. In order to have a program that would be acceptable to all concerned, i.e., both those who receive the benefit of the transfer payment and those who otherwise would make the transfer payment, it is necessary to effect sufficient economics overall such that in the long run costs would be lower for all. Additionally, it is necessary that costs do not increase for those who currently enjoy lower power costs above what they otherwise would in the absence of this program.

The only place economies of sufficient scale to effect overall state average power prices can be made are prospectively in the Railbelt. By construction of the lowest life cycle cost alternative, the Susitna Hydroelectric Project, it will be possible to lower state wide rates substantially below what they otherwise have been under the best thermal alternative using natural gas and coal fired generation. Using the lowest life cycle cost alternative yields lower rates from about 2007 and beyond. Before this date it is necessary to apply certain amounts of rate stabilization to prevent rates from rising above what they would have been under the thermal alternative. This is shown quite clearly in Figure 5 where the state wide average rate without Susitna and Bradley increase dramatically over the period shown. The average rate for Anchorage, Juneau and the four dam pool, without Susitna and Bradley also increases in a similar fashion, but remains at a somewhat lower level. Also it can be seen that the difference between these two rates also continually increases. The state wide rate with Susitna and Bradley is significantly lower than either of the other two over most of the period shown. Between 1996 and 2007 the state wide rate with Susitna and Bradley is noticeably higher and this is the period the major portion of the rate stabilization is required.

For projects of this type using state funds for rate stabilization rather than directly for construction yields the maximum benefit for the least amount of money. To achieve the same degree of early year rate reduction through direct funding of construction would require several times as much money. Funds used for rate stabilization should be capitalized just like interest during construction is capitalized because it is necessary to enable construction of the project. This rate stabilization will require a fund established over eight years, 1986 to 1993 inclusive, made up of equal deposits of approximately \$250 million, with all interest accruing to the fund. This is the minimum amount required assuming tax exempt financing is used for the major projects. To insure tax exempt financing under today's tax laws, direct billing, by the state wide agency for energy is necessary, with each utility billing by separate line item its other costs.

Thus to achieve rate equalization at the bus bar level throughout the state, to minimize electric rates state wide over the long run and to endow a program which will assume complete responsibility for meeting state wide bus bar electrical energy requirements far into the future, the two capital requirements identified above must be met. Funding rate equalization until the cost cross over in approximately 2007 will require setting aside approximately \$100 million per year for eight years plus accrued interest and rate stabilization will require approximately \$250 million per year for the same eight year period. The total cost to the state being around \$350 million per year for eight years.

Existing Power Authority projects and appropriations such as the dams in the four dam pool, the Anchorage-Fairbanks tie line and current Bradley and Susitna construction appropriations should be included in the equity endowment in addition to the amounts previously cited. Also the state loan to the four dam pool should be converted to an equity grant. This will insure that all potential savings from these projects will be shared equally and make maximum contribution to lowering the state wide power cost.

The above program will result in lower rates immediately for all portions of the state with higher than average power production costs and no higher rates for those parts of the state with lower than average power costs. After 2007, all areas of the state will experience bus bar power rates substantially less than they otherwise would. Financing of all required power production projects will be assured including Bradley Lake, Crater Lake, Susitna and the Bush additions required to meet load increases engendered by this program.

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

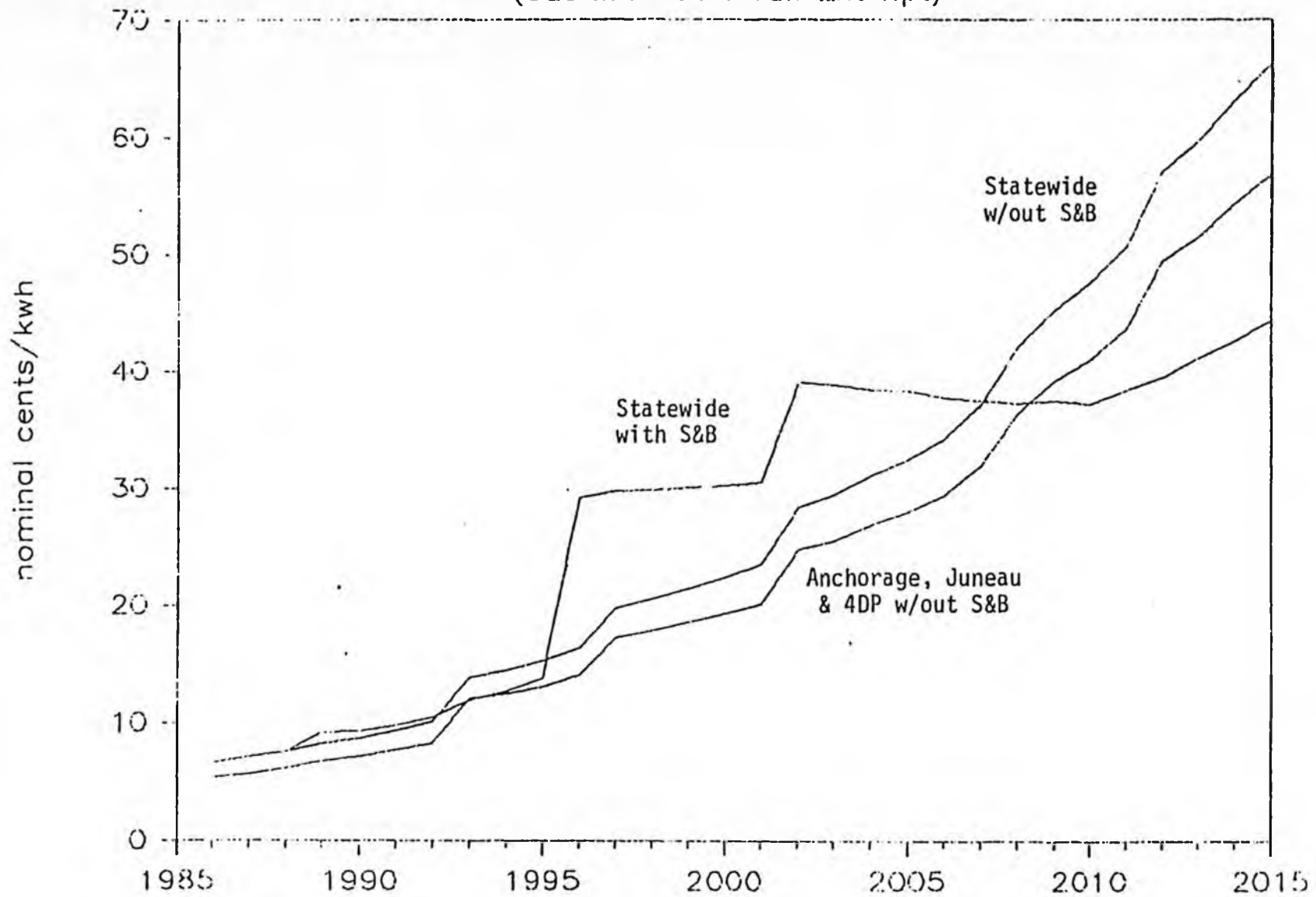


FIGURE 1

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

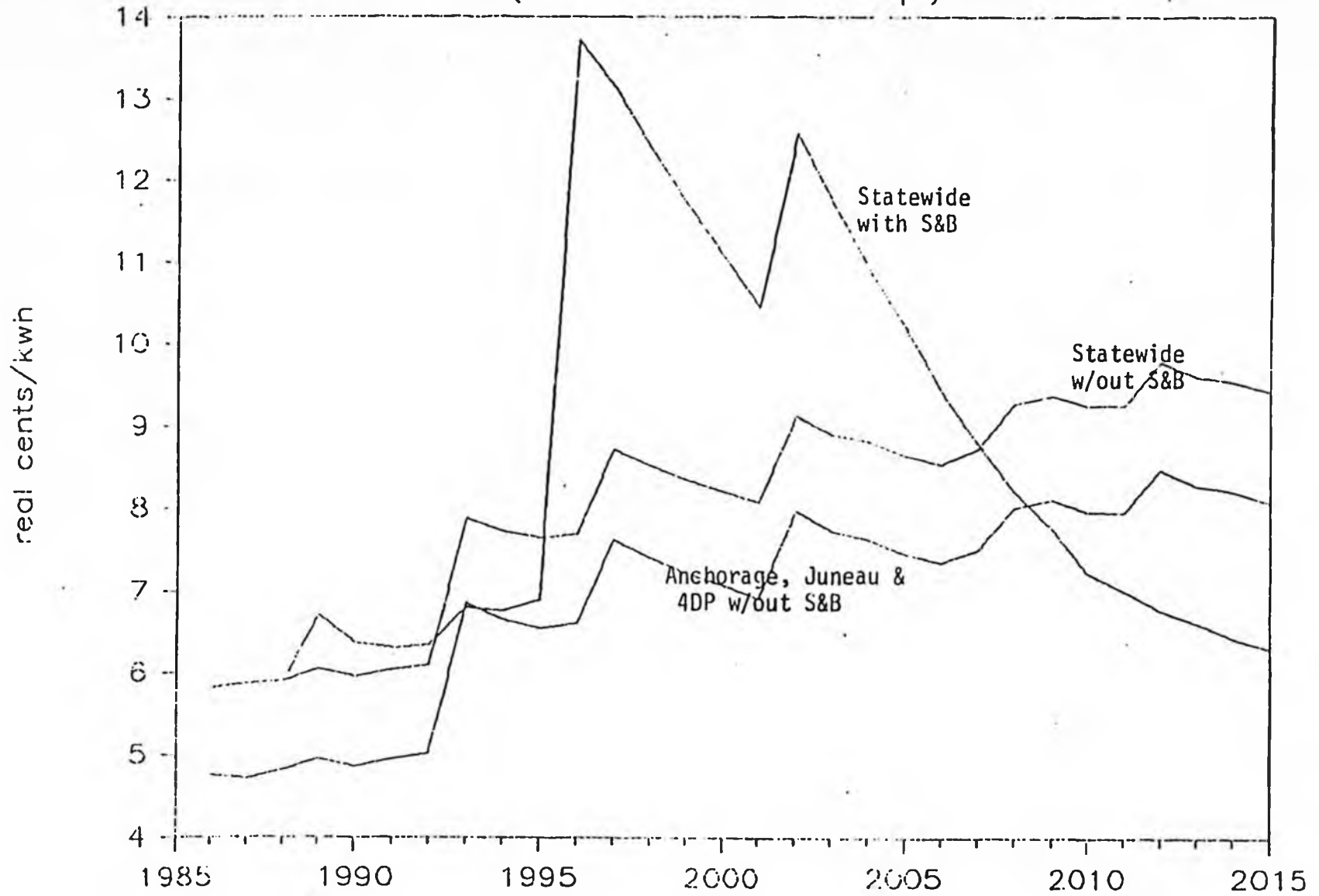


FIGURE 2

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

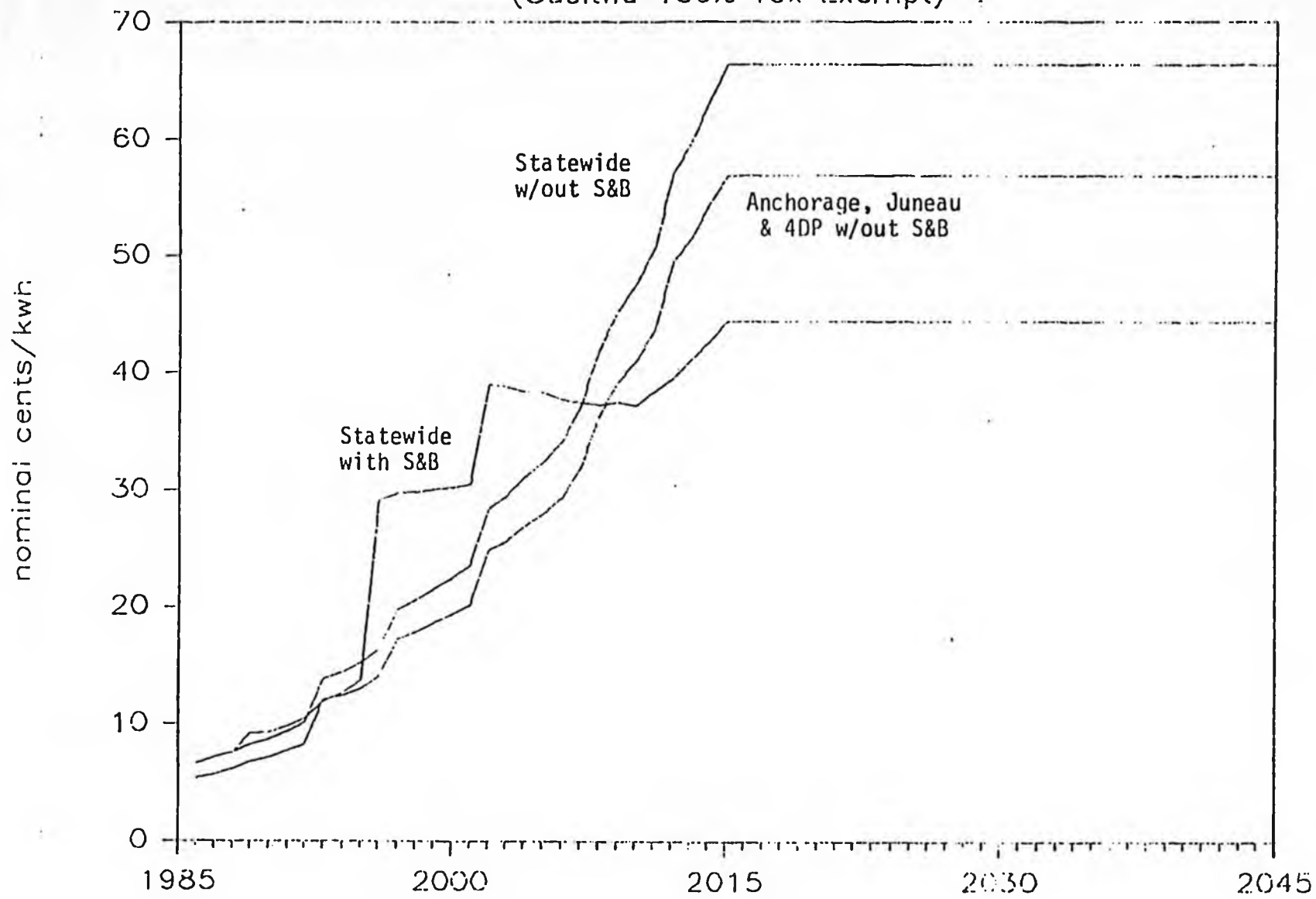


FIGURE 3

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

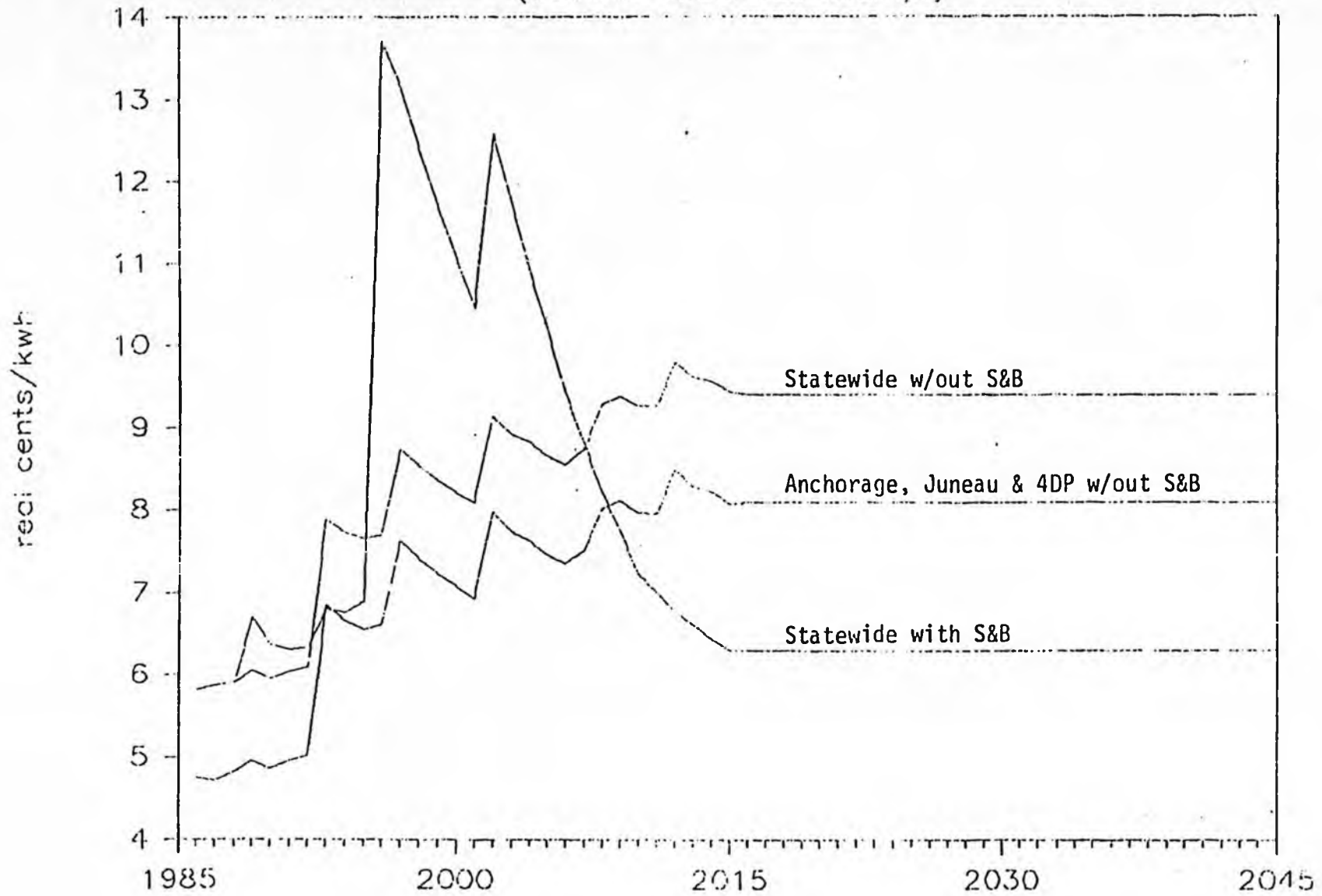


FIGURE 4

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

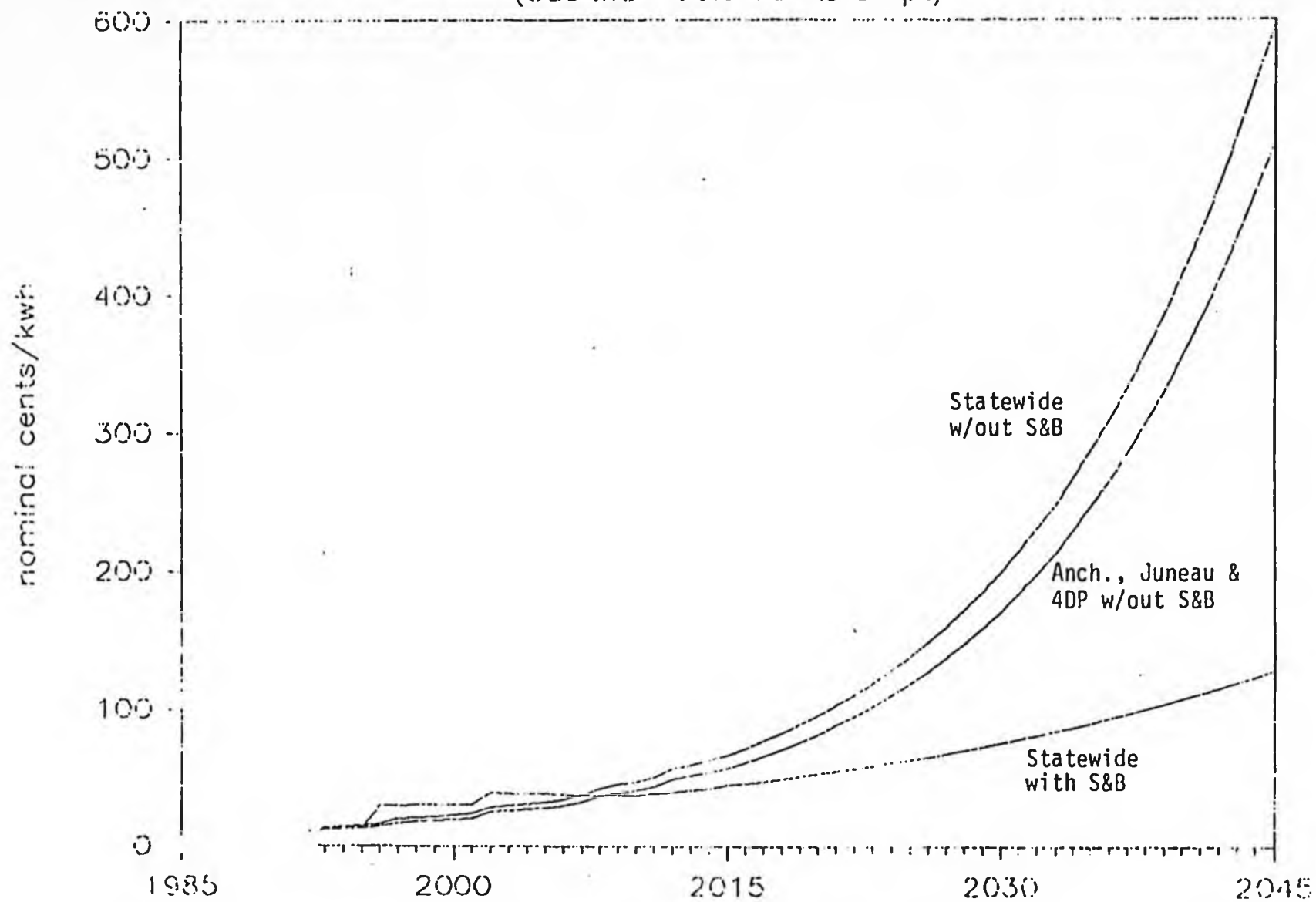


FIGURE 5

PRODUCTION COST RATES

(Susitna 100% Tax Exempt)

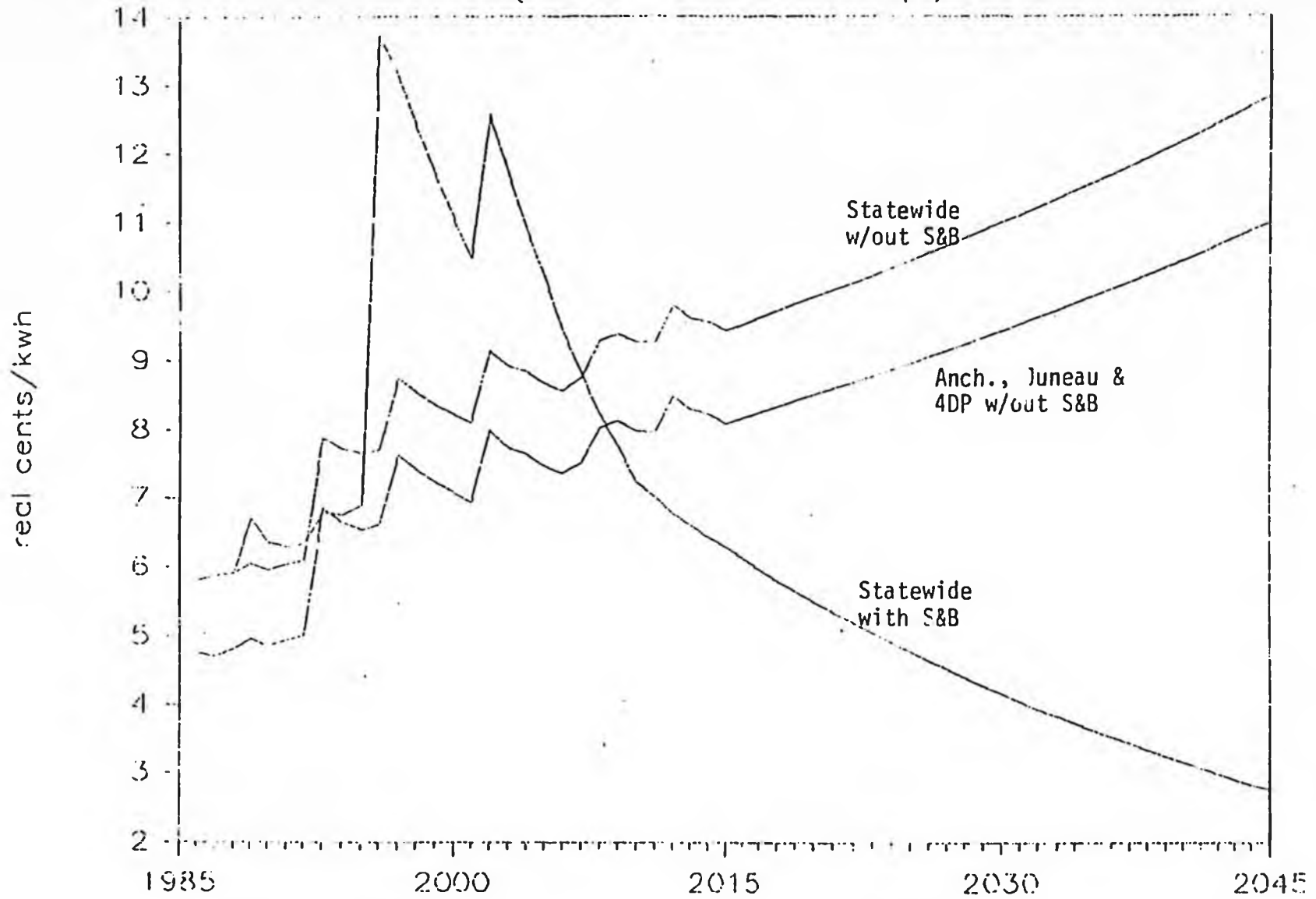


FIGURE 6

ORGANIZATION

by Robert Martin, Subcommittee Chairman

We assume the Alaska Power Authority (APA) will be the organization to administer this program. Since state funds will be involved, a state-wide, electrical power-production rate will have to be determined, an enormous amount of staff work must be accomplished, it is simpler to assign these duties to an existing organization than to create a new one. The APA will continue to plan, design, finance, and construct new generation and transmission facilities.

The Committee strongly feels that the APA is unable to carry out all those duties under its current organization. The APA is essentially a utility and like all utilities, it must be a very stable organization in order to secure favorable financing, to more easily predict their future requirements, and to give their consumers the sense of security they need to live out their daily lives. The APA is, and has been for the past several years, an unstable organization because a majority of the Board of Directors are political appointees of, and in fact cabinet members of the Governor's Administration.

Cabinet members serve at the pleasure of the Governor and change whenever the State elects a new governor. Turnover is typically high even during an governor's tenure, thus practically guaranteeing there will always be new board members. Every four or eight years, an entirely new board is created, with a new agenda, new goals and objectives, new ways of doing business--a new mandate, if you will, of the people of Alaska. Commissioners are extremely busy people and more than 50% of the time will send an

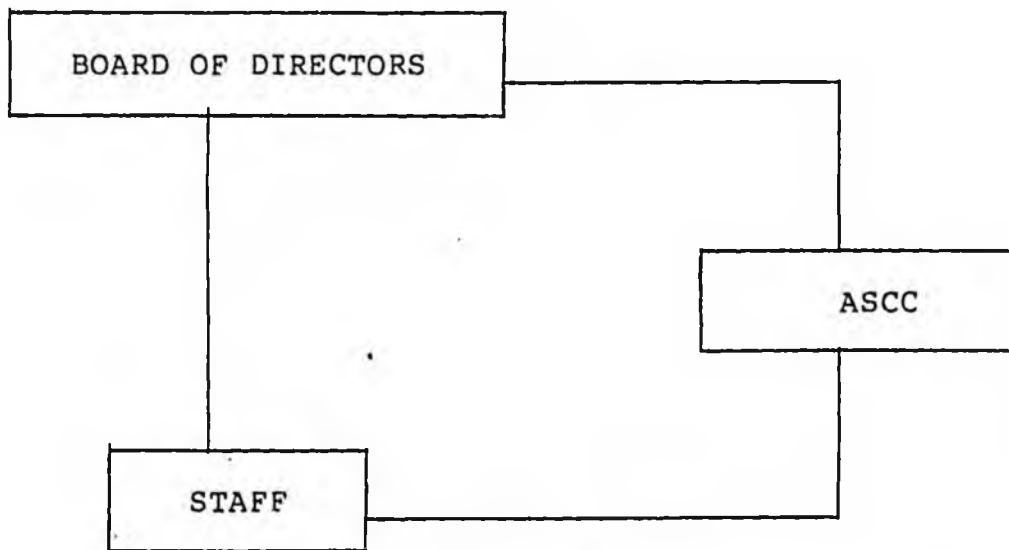
appointee. This creates an educational problem at every meeting and detracts from the consistency of board action. In addition, commissioners' prime responsibility is to their own departments-- a significant situation when APA is competing for limited funds.

For many similar reasons, the APA must enjoy a greater measure of autonomy than it currently does. The APA is seen to a political extension of the Governor and many times is the center of Legislative/Administrative confrontation. The Board and its staff must be able to make sound business decisions free from the pressures of politics, able to stand through any change of administration. The APA needs to be able to report directly to the Governor and the Legislature rather than being a budgetary part of the Department of Commerce and Economic Development as it is now.

The Committee believes the necessary stability is achievable within the APA, but only with a drastic change in the make-up of the Board and in the way the Board is chosen. First, the Board should be a nine-member body, eight of whom would be appointed by the Governor for staggered six-year terms and approved by the Legislature; and one to be the Commissioner of Commerce and Economic Development who would serve at the pleasure of the Governor. These members should not only be regionally representative, but should contain one person from the banking industry and one consumer representative. Four of the eight should be utility representatives recommended from the membership of the Alaska State Coordinating Councils (ASCC). Two of the utility members should be from the railbelt, one from the southeast, and one from the bush.

The ASCC is an existing body of electrical utility managers similar to other coordinating councils throughout the US and Canada who make the difficult and complex decisions regarding interconnected generation and transmission systems. The ASCC has been in existence for several years and is representative of and open to all Alaskan electrical utilities.

The Committee believes the experience and expertise which exists within the ASCC could be extremely beneficial to the Board of APA and the staff of APA. In fact, we recommend that the ASCC be authorized to act in an advisory capacity both to the Board and the staff. The organization would prevent unnecessary and expensive duplication of effort, would add to the stability of the APA and would look like this:



Using the ASCC in this manner relieves the APA from having to support a large committee system, since the ASCC is self-supporting. Also, since the ASCC is made up primarily of utility

managers, they each have available to them whatever support staff exists in each utility. In some cases, the individual staffs exceed in size and expertise that which is currently available to the APA.

One organizational scenario which deserves greater study is the possibility of changing the APA into a Regional Electrical Authority similar to the one already in existence, except that the region served would be all of Alaska. This scenario would require some statutory changes, but would change the APA into a political subdivision of the State with all of the powers of a municipality. The organization we envision would be very similar to the Nebraska Public Power District.

APPENDIX

- Governor's Letter Establishing the Committee
- List of Committee Members

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

November 9, 1984

Mr. Charles Sitkin
Arthur Young & Company
1031 West Fourth Avenue
Anchorage, AK 99501

Dear Mr. Sitkin:

It is my pleasure to appoint you to the Advisory Committee on Statewide Power Production Costs. The task of this Committee is to investigate the economic, financial, political, and administrative feasibility of a comprehensive State program to establish a basis for equitable power production costs in Alaska through purchase and resale agreements. Specifically, the Committee is to:

- 1) investigate the application of power cost averaging techniques elsewhere, such as in Alberta, Nebraska, New York, and the area served by the Bonneville Power Administration;
- 2) explore the workability of the concept in Alaska; and
- 3) consider possible strategies for implementing it if it is found to be a feasible idea.

The Committee will report directly to the Board of Directors of the Alaska Power Authority. Larry Crawford, Executive Director of the Alaska Power Authority, will be in touch with you about the details of the Committee, including activities, schedules, technical support, and the working relationship with the Board of Directors.

Let me explain briefly the reason for creating this Committee. I believe that Alaska's energy policy needs additional direction and coherence. We have completed several expensive hydroelectric projects around the state, and we are planning more. We are pushing ahead with small-scale energy programs in rural areas, and last year we expanded the State's direct subsidy program for high-cost rural electrical systems.

November 9, 1984
Page 2

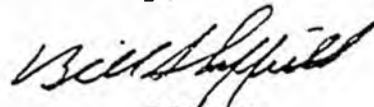
All of this activity in the energy field is good because it helps lower electric rates to the consumers. But I am concerned because the State's cash contribution to energy projects is not benefiting all Alaskans equally. The problem of disparity in benefits becomes even greater when we consider funding major new electric projects in urban areas.

We currently have in statute an Energy Program for Alaska. This program addresses the fairness issue in a very limited way, through the debt-pooling concept. We have found that even this mechanism may not be workable because of the unwillingness of customers to expose themselves to rate increases caused by debt financing of future projects in the system. This is the lesson of the still-unfinished negotiations between the Alaska Power Authority and the utilities in the 4-dam-pool communities.

My idea is to look at averaging power production costs across the state through an administrative mechanism that allows the State to purchase power from producing utilities and resell it at a blended statewide rate.

This new program could be a solid basis for power sales contracts for the 4-dam pool, for the Bradley Lake project, and for Susitna. If this idea is considered feasible by the Advisory Committee and the Board of Directors of the Power Authority, it could give new purpose and direction to the Energy Program for Alaska.

Sincerely,



Bill Sheffield
Governor

ADVISORY COMMITTEE ON STATEWIDE POWER PRODUCTION COSTS

Charles P. Sitkin, Arthur Young & Company, Chairman
Nels A. Andersen, Jr., Co-Ma Services
Charles Freeman, Mayor, Ketchikan
Loyd Hodson, Gen. Mgr., Alaska Village Electric Cooperative
David Hutchens, Exec. Director, ARECA
Loren Karro, Tlingit-Haida REA
Robert Martin, Jr., Gen. Mgr., Chugach Electric Association
Don Mellish, National Bank of Alaska
David Nease, Gen. Mgr., Kodiak Electric Association
Tom Stahr, Gen. Mgr., Anchorage Municipal Light & Power
Ivan Forsheim, Board President, Golden Valley Electric Assoc.
Eric Meyer, AKPIRG



Alaska State Legislature

Senate

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

4 February, 1987

MEMORANDUM:

TO: Senator Tim Kelly, Chairman
Senate Labor and Commerce Committee

FROM: Senator Fred Zharoff *FZ*

SUBJ: SB 81 "An act relating to the Alaska Power Authority;
and providing for an effective date."

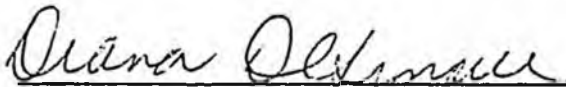
I would like to request you to delay the hearing on SB 81 which you have scheduled before the Senate Labor and Commerce Committee for this Friday, February 6th. I will be attending the Pacific Fisheries Legislative Task Force meeting in Washington, and therefore will be unable to attend the hearing. Thank you for your consideration of this request.

POSITION PAPER
SB 81

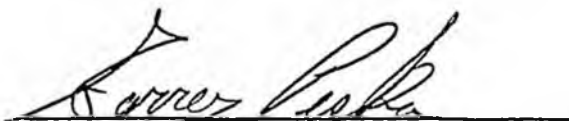
SB 81 changes the organization of the membership for the Alaska Power Authority Board of Directors and places its officers and employees in the Exempt Service by amending AS 39.25.110.

The status of the employees of the Alaska Power Authority does need to be clarified. The status of State employees is determined by AS 39.25. Unless employees or positions are specifically exempted from the Classified Service either by statutory reference or personnel board action, they are considered to be in the Classified Service. However, in regards to the Alaska Power Authority, a recent Anchorage Superior Court decision cited past practice and states that it was the intent of the legislature to treat employees as members of the Exempt Service. However, AS 39.25 does not expressly place Alaska Power Authority employees in the Exempt Service. SB 81 would confirm that ruling.

The Department of Administration, Division of Personnel's position on this bill is neutral.


Diana DeSimone, Director
Division of Personnel

2/11/87
Date


Commissioner Garrey Peska
Department of Administration

2/11/87
Date

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SB 81
Publish Date: _____

REQUEST _____

Revision Date: _____
Title: An act relating to the Alaska
Power Authority; and providing for an
effective date.
Sponsor: Zharoff
Requestor: Senate Labor and Commerce
Committee

Agency Affected: Division of Personnel
BRU: Personnel

Components: Centralized Administrative Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

*	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

There will be no fiscal impact to the Division of Personnel.

Diana DeSimone

Prepared By: Diana DeSimone
Division: Personnel

Phone: 465-4430

Date: 2/11/87

Approved by Commissioner: Garrey Peska
Agency: Department of Administration

Date: 2/11/87

Distribution (by preparer):

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

S B

8 7

Adopted

Conceptual language for CS for SB 87:

Delete the existing new (underlined) language and insert language that would provide:

"not in excess of a monthly rate that results in 17 percent per year on the outstanding balance".

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: _____

Bill Version : SB 87
Publish Date : _____

Revision Date: _____
Title : Credit Card Interest Rates

Agency Affected : Comm. & Econ. Dev.
BRU: Banking

Sponsor : Labor & Commerce
Requestor : Labor & Commerce

Components : _____

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						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

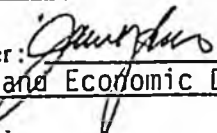
POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Willis Kirkpatrick, Director
Division: Banking, Securities and Corporations

Phone: 465-2521
Date: February 11, 1987

Approved by Commissioner: 
Agency: Commerce and Economic Development

Date: February 11, 1987

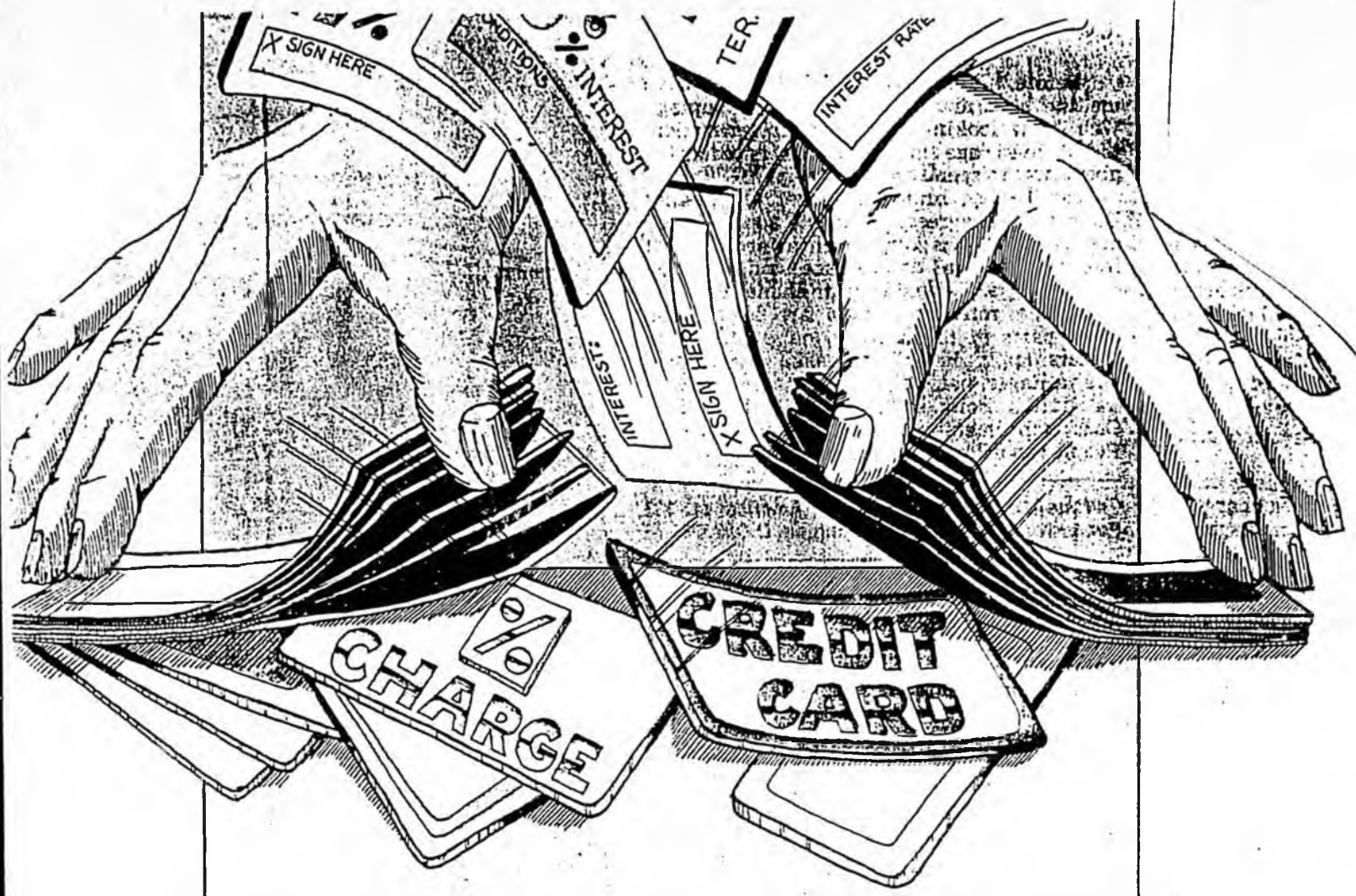
Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

Anchorage Daily News
Monday, February 2, 1987

styles/community/entertainment/tv

MATTER OF INTEREST

It pays to shop around for credit rates



BANK CARD INTEREST RATES

A sample of some Anchorage banks

Company	First \$1,000	Over \$1,000	Annual fees	Interest free period
Alaska Continental Bank	18.00%	10.50%	\$20	25 days
Alaskan Federal Credit Union	*14.85%	same	none	none
Alaska Mutual Bank	18.50%	same	\$18	21 days
Alaska National Bank of the North	15.00%	same	\$18	21 days
Alaska Pacific Bank	18.00%	10.50%	\$20	25 days
Alaska State Bank	18.00%	10.50%	\$20	25 days
Alaska USA Federal Credit Union	*13.90%	same	\$15	25 days
Fedaska Federal Credit Union	18.00%	10.50%	\$20	25 days
First Federal Bank of Alaska	18.00%	10.50%	\$20	25 days
First Interstate Bank of Alaska	21.00%	same	\$20	25 days
First National Bank of Anchorage	18.00%	10.50%	\$20	25 days
National Bank of Alaska	18.00%	10.50%	\$20	25 days
Rainier Bank Alaska	15.00%	same	\$20	25 days
Alaska Bank Card Center	18.00%	10.50%	\$20	25 days

*Fluctuates

By JANE CARTWRIGHT

Daily News reporter

If you're unhappy with the interest rate you pay on your credit card, all you may have to do is drive down the street to a different bank.

Or apply for a "cheaper" card from an out-of-state bank.

Don't let the pleasure and convenience of the credit card — perhaps the most popular consumer invention ever — blind you to the reality of monthly payments, say experts. Shop around for the best interest rate, annual fee and interest-free grace period.

Banks that issue Visa or MasterCard set their own interest rates. Rates charged by Anchorage banks and credit unions vary widely — up to 6 percent.

Alaska USA Federal Credit Union currently charges its members the lowest rate at 13.9 percent. California-based First Interstate Bank of Alaska charges the highest at 21 percent.

The majority of Anchorage banks charge 18 percent on the first \$1,000 of unpaid balance and 10.5 percent on anything above that.

The annual interest rate is the amount the cardholder pays on the unpaid balance of the charge. Usually there's an interest-free or grace period before interest is tagged onto the balance. The length of the grace period varies, too. So does the annual fee charged to use the card.

So what? you may ask. If so, you're not alone.

One in four Americans carrying bank "plastic" doesn't know the rate of interest he is paying for the pleasure, according to a survey published in the Bank Credit Card Observer, a monthly industry newsletter.

The percentage of card holders who don't know may, in fact, be quite a bit higher, according to experts. Many people find it difficult to admit they don't know.

A surprising 78 percent of the 1,008 Americans surveyed said they see their cards as more of a convenience than a loan.

"The new year will challenge these beliefs," according to the New Jersey-based newsletter. "... Comparative shopping is entering a new era."

The new federal tax law calling for the phase-out of the tax deduction on bank credit card interest, among other things, may heighten consumer activism, according to the newsletter.

This and other factors may lead consumers to comparison shop for credit cards the way they shop for best buys on appliances and automobiles.

"Consumers are switching (banks) by the millions," said Steve E. Goodman, associate editor of the newsletter, in a telephone interview. "Banks that offer low-interest rates are being swamped by applications."

According to the newsletter's poll of the nation's 200 largest banks, the lowest interest rate on a bank card, 10.5 percent, is offered by the First Commercial Bank of Little Rock, Ark. The highest: 22.2 percent, by NCNB South Carolina in Columbia.

There's nothing to prevent a resident of Anchorage from applying for credit cards offered by banks Outside. In fact, many Alaskans do, according to Elgie Holstein, Washington, D.C., director of Bankcard Holders of America.

All you have to do is write to the bank and apply for a card.

"I do know that Alaska residents, like residents elsewhere in the country, are carrying credit cards issued by a local bank and also carrying a large number of cards issued by out-of-state banks," he said.

The average bank credit card interest is 18.5 percent, he said, even though interest rates on mortgages, cars and other loans "have fallen dramatically."

Holstein said the variation in rates here in Anchorage is not unusual.

"Regardless of where you live," he said, "you should shop around for the best deal on credit cards."

Bankcard Holders of America will mail you a list of bank interest rates from across the country for \$1.

"If there's a dispute over a charge, you have to put it in writing," he explained. "So, it doesn't matter if the bank is two blocks away or 2,000 miles."

Of the 82 million people in the U.S. who carry bank credit cards, almost two-thirds (63 percent) say they would be willing to switch to a card with a lower interest rate, according to the Bank Credit Card Observer.

Though there is a push in Congress for a national ceiling on interest rates, the banking industry opposes it.

"Legislation is not necessary unless there is evidence of a monopoly in the marketplace," said Mary-Liz Meany, Washington, D.C. spokeswoman for the American Bankers Association.

"With the issuance of bank cards, this isn't true. There's quite a lot of competition."

She said it's dangerous to compare credit card interest rates with interest charged for other types of consumer loans.

"They (card loans) are unsecured loans, risky loans, more expensive to process," Meany said. "The cost of administering the program is very high."

She said credit cards make less money for banks — 1.68 percent of balances before taxes — than mortgages (2.24 percent), installment loans (2.32 percent) or commercial loans (2.91 percent).

And the fees for credit cards are "more accurately described as service rates,"

Meany said. "They are a tremendous convenience and they are very popular."

However, in its February issue, Consumer Reports noted that last year consumers owed some \$70 billion in outstanding credit balances, "a virtual gold mine for card issuers, especially those who've planted millions of cards in the wallets of consumers."

The magazine reports that "lenders also believed that consumers were not sensitive to interest rates because they are hooked on their cards, and the lenders felt free to charge whatever interest the traffic will bear."

However, sensitivity by banks may be growing. Late last year Citibank, the largest issuer of credit cards in the country, dropped its rate from 19.8 percent to 16.8 percent on its premium cards. Chase Manhattan, the third largest credit-card issuer, quickly reduced its regular Visa and MasterCard accounts from 19.8 percent to 17.5 percent.

By law, Alaska banks cannot assess cardholders more than 18 percent interest annually on credit balances of less than \$1,000.

For accounts with balances exceeding \$1,000, the interest rate floats 5 percentage points above the discount rate set by the Federal Reserve Bank — currently 5.5 percent.

The restrictions don't apply to out-of-state banks with branches in Alaska.

Rainier Bank Alaska offers a 15 percent interest rate — the same rate Rainier Bank charges its Washington customers. Transactions are processed through Seattle.

Seattle First National Bank processes transactions for four Alaska banks: Alaska National Bank of the North (15 percent), Alaska Mutual Bank (18.5 percent), Mount McKinley (18.5 percent) and First Bank (18.5 percent).

With SeaFirst's acquisition last month of the bank card operation at Alaska Bank of the North, the number of Anchorage institutions that issue and process their own cards shrank to three: two credit unions and a bank.

Competing with Alaska USA Federal Credit Union's 13.9 percent is Alaska Federal Credit Union's 14.85 percent. You must be a member to get a card. Alaska Federal charges no annual fee for use of a card. However, there is no grace period.

The one bank in Anchorage that issues its own card is First National Bank of Anchorage. The interest rate is 18 percent on the

CREDIT: It pays to shop around

Continued from Page D-1

first \$1,000 and 10.5 on anything above.

The bank offers a 25-day grace period and charges a \$20 annual fee.

Though there are only three financial institutions that issue and process their own cards, Alaska Bank Card Center processes cards in the name of 21 other financial institutions statewide. The center is a wholly owned subsidiary of National Bank of Alaska, the state's largest bank.

Rates for National Bank of Alaska's 50,000 cardholders are the same as those offered by the First National Bank of Anchorage.

Local bank officials say they encourage shopping around.

"I think people are becoming more cognizant of the different interest rates charged," said Vicki Wilts, member services manager for Alaska Federal Credit Union.

"Before, it didn't matter. People said, 'Give me the card and let me do my shopping.' We're now looking at a younger generation, the 28-to-45 age group, which is educated about how to spend money wisely."

Joan Easley, branch manager for Rainier Bank Alaska, agreed. "This is a sophisticated population that is very much aware of what interest rates are doing," she said. "We get calls from people who want to change cards."

Because rates in Alaska are lower than other parts of the country, out-of-state consumers apply here for Alaska cards, said Gloria Rager, bank card coordinator for Alaska Mutual Bank. "We get calls from East Coast consumers two or three times a day. People can afford to be choosy."

Write Bankcard Holders of America at 333 Pennsylvania Ave. S.E., Washington, D.C. 20003.

Hidden costs may offset low rates

By JANE CARTWRIGHT
Daily News reporter

Do lower interest rates on your bank credit card mean lower cost?

In its February issue, Consumer Reports warns: "Before you leap for the nearest interest-rate break, you should know about the creative ways banks and thrift institutions have found to charge you more even as they charge you less."

The magazine urges consumers to consider the following:

- **Annual fees.** A card with a lower interest rate may come with a higher annual fee. When Citibank lowered its interest rate, it raised the annual fee on premium-card accounts from \$40 to \$50.

- **Tiered pricing.** Some banks charge a higher interest fee on lower outstanding

balances and a lower interest fee on higher ones. Norstar Bank of Maine charges customers 15.5 percent on card balances of \$1,000 and over, 18.5 percent on balances below \$1,000.

- **Grace periods.** Some banks have started offering cards at a lower interest rate, but with no interest-free or grace period. Traditionally, a customer could pay off the entire unpaid balance before the normal 25-day grace period lapsed and incur no finance charge.

"Some banks have told us they make more profit by reducing the rate and wiping out the grace period," Robert Heady, publisher of The Bank Rate Monitor, is quoted as saying. His publication tracks interest rates.

Last fall, First Financial Savings, a

See Page D-2, HIDDEN

HIDDEN: Low rates may belie actual cost

Continued from Page D-1

Wisconsin bank, began offering some cards at a 14.9 percent interest rate, but eliminated the grace period.

Consumer Reports notes: "Let's say you make five \$50 purchases during a billing cycle and pay in full two weeks before the bill's arrival. With the normal 25-day grace period, you'd owe no interest.

"But without a grace period, those purchases would cost you \$3 to \$4 in interest even on a card with a relatively low 14.9 percent interest rate."

- **Variable rates.** Other banks offer a low-rate card, but the rate is variable. Marine Midland in New York, for example, offers a card with a 14.9 percent variable rate. The bank changes the rate every quarter according to a number of factors, including the cost of the funds. The rate, however, is not pegged to any outside index.

If you pay off your credit-card balances regularly and don't incur finance charges, a much higher rate down the line won't make much difference. But if you carry credit balances, it could.

"Before looking for a credit card that offers the best features in the crazy quilt of pricing schemes, consider first how you use credit," the magazine suggests. "If you are a 'convenience' user, who pays off balances promptly each month thus incurring no finance charges, grace periods count but interest rates do not.

"If you're a true credit user, who allows your unpaid balances to revolve into the next billing period, look for a lower interest rate. And, of course, the more heavily you charge, the more you'll save with the lower rate.

"When evaluating credit-card offers, look carefully at the fine print before you sign up. Check the annual fee. Does the bank charge you

interest at a higher rate if you purchase less on your card? Are there transaction fees for cash advances or even purchases?

"Your best bet is still with an old-fashioned credit card with a low interest rate, low annual fee, and the grace period. Such offers are likely to come from financial institutions that are trying to get more cards into the hands of consumers, rather than from banks that already have a large credit-card consumer base."

Consumer Reports notes that "pricing can be subtle."

Consider First Deposit National Bank in Tilton, N.H. It offered by mail a Visa card with no annual fees, no transaction fees, lower minimum monthly payments and a 1 percent rebate on every purchase made with the card.

The catch?

To get the card, you had to take out a \$1,000 cash advance at a hefty 21.9 percent interest rate.

See Page J-2, HOSPITALS A birthing room at Providence Hospital is equipped with many of the amenities of home.

Alaska laws keep card rates high

You might not have noticed, but the interest you pay on your VISA or MasterCard depends very much on whether it was issued by an "Outside" bank like Citibank or Bank of America, or an Alaska bank. It can make a real difference, because the interest charged by local banks can be considerably less. But not as cheap as it could be. Therein lies an interesting story.

This is hard to believe, but sadly true: Alaska's law restricting interest rates on credit cards puts local banks at a competitive disadvantage with out-of-state financial institutions, results in local consumers paying higher rates, raises the possibility of local jobs being eroded and surprisingly, results in a minority of relatively affluent Alaskans being, in effect, subsidized by the rest of us.

You'd think legislators would rush to change this. In fact, they tried to. A bill did pass both the House and Senate, but it died in the confusion during final hours of the legislative session.

The law governing these interest rates is relatively obscure, a relic of the days of high interest rates, high inflation and the notion that economic problems can be solved by price controls and government regulation. But because of it, out-of-state financial institutions have been able to market their own credit cards aggressively here, capturing about half the Alaska charge card market. Because Alaska's limitations on interest don't apply to them, they can charge higher rates as well.

Alaska is one of five states that still have laws restricting interest rates on



tim bradner

locally issued credit cards that are lower than they would be on the open market. However, the problem is not so much the limit but the way the limit is structured.

We have a "two-tier" limit in Alaska, a top rate of 18 percent on the first \$1,000 owed, and a lower interest rate, applying to balances over \$1,000, that "floats" at five points over the federal discount rate. The discount rate has been falling, so this lower rate is now about 11.5 percent.

Like any price control, these limits create shortages and market distortions. The shortage is in the ability of the local banks to offer their lower-cost credit card services to large numbers of Alaskans, many of whom then turn to cards issued by out-of-state financial institutions to which the Alaska limits do not apply. Rates charged on these cards approach 20 percent. For example, Citibank and Bank of America charge 19.8 percent for their VISA and MasterCard accounts, as does Sears with its new Discover card.

But the most bizarre distortion is this:

The "two-tier" structure of Alaska's law creates a situation in which most of Alaska-issued card owners who carry relatively low balances wind up paying the maximum 18 percent, while a minority of the more affluent, who qualify for the premium bank cards with larger credit lines, can carry large balances and pay 11.5 percent on some of it. In effect, they are using the cards as a source of cheap consumer credit and are being subsidized by the rest of us who pay 18 percent.

This is the crux of the matter. Alaska bank earnings are marginal when servicing charge card accounts at 11.5 percent. To make up for lower earnings on this money, they must push the rate to the legal 18 percent maximum on the other money lent. Even with that, bank card services are no big money-maker for local banks.

Credit card operations are more complex and costly than conventional bank lending because of added costs in processing, handling and mailing. What this means is that to stay in the business, local banks must keep costs to a minimum, particularly the inevitable bad debt losses. They can do this by being very restrictive to whom they issue cards.

This has made Alaska a happy hunting ground for out-of-state financial institutions that are regulated under more liberal laws of their home states. With modern communications and data-processing technology, they locate card

See Page J-5, CREDIT.

ANCHORAGE DAILY NEWS - SUNDAY, JULY 6, 1986

CREDIT: Laws keep rates high

Continued from Page J-1

operations in states with liberal laws and can aggressively promote their cards nationwide because they charge higher rates and have a huge volume to make up losses. Local banks, in contrast, have less volume, less margin and higher costs, partly because they maintain their operations and people here.

The legislation that died in Juneau would have wiped out this lower "tier" of interest limitation to leave just one limit on the total of the amount owed. In fact, in final versions of the bill, the top "cap" would have been reduced from 18 to 17 percent.

But the actual rate would be determined by competitive market forces here and would "float" down to around 16.5 percent, Alaska bank officials say. Because there no longer would be a need to subsidize the lower limit, rates for most people would go down. But the overall return to the banks would increase. A greater margin would permit more liberal card-issuing, more volume, an ability to capture back more market share from the Outsiders, and lower interest rates on charge cards for most Alaskans.

Cynics doubt rates would actually fall. Local bankers point to other states with relatively high legal limits, or even no limits, where actual rates, established by market competition, are lower. They point to Washington, where the legal ceiling is 18 percent but Seafirst and Rainier banks charge 15 percent on their cards.

Critics respond: the Alaska banking community is small and dominated by a few big banks. There might not be enough competition for market forces to bring down rates.

Most legislators finally grasped the subtle complexities of this issue, though not in time to see a change in the law this year. It's tempting in politics to rely on the notion that government can "fix" a problem with a regulation or a control. It's more difficult to see the long-range effects or to really trust that free-market forces and deregulation in the financial community can really benefit consumers.

If legislators do allow interest rate deregulation, it will be interesting indeed to see how free-market forces will actually perform.

□ Tim Bradner writes for an Alaska economic reporting service.

TESTIMONY BEFORE SENATE LABOR & COMMERCE COMMITTEE

Mr. Chairman, my name is Wes Coyner and I am representing the Alaska Bankers Association who support passage of SB87. This bill is, in fact more of a consumer bill than a banking bill.

What this bill will do is provide a single legal maximum interest rate on the outstanding balances on credit cards.

Under current Alaska law we have a two tier interest rate structure which is outdated, and a relic of the days of high interest rates and high inflation.

We now have a maximum rate of 18% on the first \$1,000 owed on local bank cards and a lower rate on balances over \$1,000 that floats at five points above the federal discount rate. The discount rate has fallen recently and this lower rate on balances over \$1,000 is now 10.5%. That is the problem - rates are too high on balances under \$1,000 and too low on balances over \$1,000.

As a result of our current two tier system approximately 150,000 Alaskans who have VISA and MASTERCARGE cards issued by Alaska banks, are not getting the full benefits of falling interest rates in todays market.

In addition, current statute places Alaska banks, who offer credit cards, at a competetive disadvantage with out of state banks who have captured approximately half of the Alaska credit card market. Ironically, most of those banks charge a higher interest rate than local banks.

Further, existing law discourages Alaska banks from issuing new cards, which in turn effects the number of people employed in their card operations and forces many Alaskans to use out of state cards at higher rates than Alaska law allows. State laws do not apply to out-of-state banks and credit unions who issue cards under more liberal laws of their home states, in the case of banks, and federal regulations for credit unions. Thirteen states have no limit and all but five states allow rates that vary from 18% to 30%. However, the legal maximum is not necessarily the rate charged.

As a side note, and as an example, Alaskan National Bank of the North recently sold their credit card operations to Seattle First National Bank. They reduced employment in that department by 10-14 employees and now Seattle First will be offering Alaska customers a card from Seattle at a 15% single rate not regulated by Alaska law but by Washington state.

Existing law allows our competitors from out of state to do things that we cannot do, and the law in its present form is not beneficial to lower income consumers.

We have a situation in which most of Alaska-issued card owners (approximately 2/3), who carry relatively low balances, wind up paying the maximum 18%, while a minority of the more affluent, who qualify for the premium bank cards with larger credit lines, can carry large balances and pay 10.5% on some of it. Consequently, to make up for lower earnings on this money, banks must push the rate to the maximum 18% on the lower balances. This has the effect of the more affluent using the cards as a source of cheap consumer credit and being subsidized by the average consumer who carries a smaller credit balance.

Our current structure has created inequities for banks doing business in Alaska, who want to provide jobs, and for the small or average consumer who desires a lesser interest rate.

Passage of SB87 would correct those inequities.

Banks would be able to compete on even terms with out of state banks by providing more cards to Alaskans seeking them, thereby expanding their card base, which in turn can lead to expanded operations and employment.

Most consumers would benefit by having one rate to consider rather than the confusing two tier system that now penalizes the lower balance user.

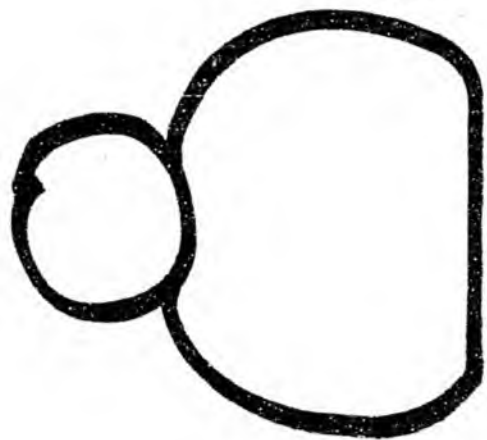
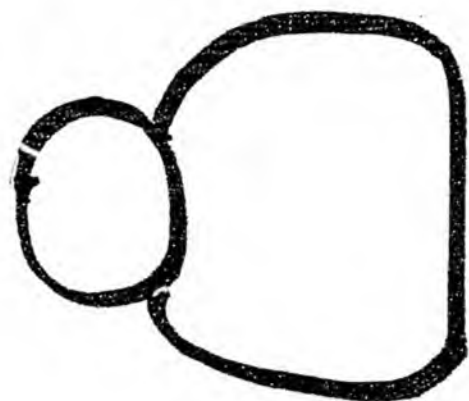
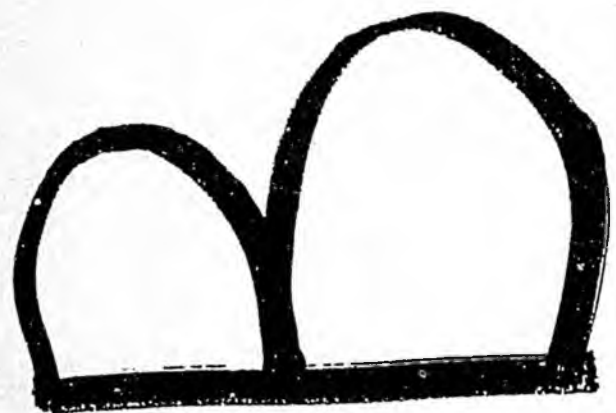
For those who are concerned about a maximum rate of 18% as set forth in SB87, Alaska banks are presently perceived to be an 18% card, when truly they are not. We cannot survive with an image of having an 18% card when our competitors are offering cards at far less.

In this regard, one of the two remaining Alaska banks offering credit cards will commit, in today's market, to a single or blended rate of 16.5%, or less, with passage of SB87. Thus, immediately reducing the 18% rate currently being paid by the approximately two thirds of holders of Alaska issued cards. Competition will certainly dictate that the other bank review the market to protect their interest.

Our current, out of step law, no longer protects or benefits the average consumer, who it was designed to protect and has put Alaska banks into a disadvantaged position against out of state card issuers.

SB87 will correct these problems and benefit both the consumer and the banks doing business in Alaska and creating employment.

The earlier this suggested change can be implemented, the sooner banks can compete by the same basic ground rules as out of state competitors and the sooner the consumer can take advantage of the lower interest rate at least one bank will commit to today and the other bank will review based on market conditions.





Alaska State Legislature

Senate

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

January 27, 1987

MEMORANDUM

To: Senate Labor & Commerce Committee Members

From: Senator Tim Kelly, Chairman *TDK*
Labor & Commerce Committee

Subject: Proposed Committee Bill regarding Automobile
Insurance Premiums

Attached is a copy of proposed committee legislation to clarify a significant ambiguity regarding increases to automobile insurance premiums.

Last year, HB 476, which contained identical language, unanimously passed the House of Representatives. While favorably considered by Senate committees, the Rules Committee was unable to place the bill on the calendar in the closing days of the legislative session.

To my knowledge little opposition to this legislation has surfaced and the bill enjoys the support of the Division of Insurance.

Please let me know if you have objections or concerns about introducing this legislation as a committee bill.

IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to increases or surcharges to automobile insurance premiums."

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

* Section 1. AS 21.36.420(d) is amended to read:

(d) An insurer that increases the premium or adds a surcharge to an automobile insurance policy shall give written notice of the increase or surcharge at least 15 days before it takes effect, stating the reason for the change and the right of appeal under AS 21.39.090.

This subsection does not apply to a

(1) premium increase resulting from a change requested by an insured, if the insured is notified at the time the request is made that the amount of the insured's premium will change as a result of the requested policy change; or

(2) rate approved by the director if the insurer gives written notice of a premium increase to the insured at least 15 days before the renewal date of the affected policy.

HUGHES THORSNESS GANTZ
POWELL & BRUNDIN

ATTORNEYS AT LAW

ONE SEALASKA PLAZA, SUITE 303

JUNEAU, ALASKA 99801

TELEPHONE (907) 586-5912

OF COUNSEL
JOHN C. HUGHES
RICHARD O. GANTZ

509 WEST THIRD AVENUE
ANCHORAGE, ALASKA 99501
TELEPHONE (907) 274-7522
CABLE ADDRESS: DENALI
TELECOPIER: 274-7525
TELEX: 090-28367

590 UNIVERSITY AVE., SUITE 200
FAIRBANKS, ALASKA 99709
TELEPHONE (907) 479-3161
CABLE ADDRESS: DENALI
TELECOPIER: 479-8478

200 CHENEGA STREET
P.O. BOX 767
VALDEZ, ALASKA 99686
TELEPHONE (907) 835-2988

HAND DELIVERED

January 16, 1987

DAVID H. THORSNESS
JAMES M. POWELL
BRIAN J. BRUNDIN
MARCUS R. CLAPP*
KENNETH P. JACOBUS
GARY W. GANTZ
JERRY E. MELCHER
JOE M. HUDDLESTON
SIGURD E. MURPHY
RICHARD D. THALER
CARL J. D. BAUMAN
FRED B. ARVIDSON
DENNIS M. BUMP*
MARY K. HUGHES
FRANK A. PFIFFNER
RALPH R. BEISTLINE*
GORDON J. TANS
R. CRAIG HESSER
ROBERT L. MANLEY
JAMES M. GORSKI
TIMOTHY R. BYRNES
JAMES M. SEEDORF
RONALD E. NOEL*
FREDERICK J. ODSEN
MICHAEL L. LESSMEIER**
STEVEN S. TERVOOREN
MATTHEW K. PETERSON

JOSEPH R. D. LOESCHER
KENNETH D. LOUGEE*
EARL M. SUTHERLAND
JOHN B. THORSNESS
GREGORY W. LESSMEIER*
JOHN V. ACOSTA*
DONNA P. WALKER***
WILLIAM M. WALKER***
DANIEL M. WOLD
DAVID S. CARTER
MARILYN MAY
LAWRENCE V. ALBERT
JOHN G. FRANK**
ANN S. BROWN*
BRIAN D. BJORKQUIST
JAMES N. BARKELEY
THOMAS R. LUCAS
TIMOTHY R. REDFORD
SHELDON E. WINTERS**
DOUGLAS R. SMITH
JOHN J. NOVAK
JOHN H. TINDALL
DAVID H. KNAPP
MICKALE C. CARTER
JOSEPH S. GLUSSER*
JAMES F. KLASSEN

*FAIRBANKS OFFICE
**JUNEAU OFFICE
***VALDEZ OFFICE

Senator Tim Kelly
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Re: House Bill 476

Dear Senator Kelly:

I am writing to you on behalf of State Farm Insurance Company and Allstate Insurance Company regarding House Bill 476, introduced and passed by the House during the last legislative session but remained in the Senate Rules Committee when the session ended. This bill deals with premium increases in automobile insurance policies, and was introduced at our request to correct an ambiguity in AS 21.36.420, which was added by the legislature in 1984 via House Bill 16. We enclose herewith a copy of AS 21.36.420 for your information as well as a copy of the Department of Commerce and Economic Development's 1986 Position Paper favoring the legislation.

The ambiguity House Bill 476 was designed to correct is contained in subsection (d) of AS 21.36.420:

An insurer that increases the premium or adds a surcharge to an automobile insurance policy shall give written notice of the increase or surcharge at least 15 days before it takes effect, stating the reason for the change and the right of appeal under AS 21.39.090.

Senator Tim Kelly
January 15, 1987
Page 2

If this subsection is read literally, it could be interpreted to require an insurer to send an insured a statement of reasons for change in premium and a statement of the notice of right to appeal every time a premium is increased, regardless of the reason for the premium increase. Such a requirement would significantly affect the practical consequences of the way we presently do business. For example, when a general rate increase is approved by the Division of Insurance, our insureds receive at least fifteen days notice of this increase, and a brief explanation of the reasons for the increase. To present an insured with a statement telling them that they have a statutory right to appeal a premium increase already approved by the Division of Insurance is illusory, because the Department has already approved the increase. It in fact would be illegal for us to charge anything but the approved rate. To suggest by means of a notice that our insured has a right of appeal not only is misleading, but could generate wasteful litigation and/or administrative hearings.

The more practical problems we face are where our insured calls and tells us that he has either added a youthful driver to his policy or purchased a new car. If we follow the literal dictates of the present statute, we simply would not be able to accept coverage in either instance until at least fifteen days after the request was made in order to assure that our insured has been informed of his proper statutory right of notice and appeal. The same would be true of where our insured moves to a higher rated area. We would not be able to accept coverage unless our insured is able to contact us early enough so we can provide the fifteen day notice of increase and right of appeal. We do not believe that anyone intended AS 21.36.420 to have this effect, and we believe House Bill 476 would correct this ambiguity and thus urge its passage.

The present version of House Bill 476 requires written notice of the increase stating the reason for the change and the right of appeal in all instances except to: (1) a premium increase resulting from a change requested by an insured if the insured is notified at the time of the request that his or her premium will change, or (2) a rate increase approved by the Director if the insurer gives written notice to the insured of the rate increase at least fifteen days before the expiration date of the affected policy, which is when the increase would of course take effect. We do not believe these changes would affect in any way the original intent which prompted the enactment of AS 21.36.420. On the

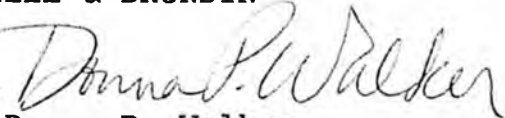
Senator Tim Kelly
January 15, 1987
Page 3

contrary, HB 476 would correct a negative effect not intended by the original legislation.

We do hope this ambiguity can be corrected this session and kindly request you calendar the bill. We will be happy to provide any assistance or further information you might desire. Thank you.

Sincerely,

HUGHES THORSNESS GANTZ
POWELL & BRUNDIN

By: 
Donna P. Walker

Enclosures
DPW/mh
1435A

cc: Senator Jan Faiks

BILL HB0476
PAGE 02281
DATE 03/05/86
CHAMBER HOUSE
TEXT The Community & Regional Affairs Committee has considered HOUSE BILL NO. 476 (relating to automobile insurance premiums), recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 476 (C&RA) (same title) and reports it back as follows: Goll (Chairman), Wallis, Koponen and Marrou recommend do pass; Phillips and Furnace have no recommendation. A zero fiscal note was attached. HB 476 was referred to the Judiciary Committee.

BILL HB0476
PAGE 02568
DATE 04/04/86
CHAMBER HOUSE
TEXT The Judiciary Committee has considered HOUSE BILL NO. 476 (relating to automobile insurance premiums), recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 476 (Judiciary) (same title) and reports it back as follows: M.M. Miller (Chairman), Sund, Phillips and Gruenberg recommend do pass; Clocksin has no recommendation. HB 476 was referred to the Rules Committee for placement on the calendar.

BILL HB0476
PAGE 02576
DATE 05/02/86
CHAMBER SENATE
TEXT The Community and Regional Affairs Committee considered <CS> <FOR HOUSE BILL NO. 476 (JUD) >(automobile insurance premiums) and a majority of the committee recommended do pass. The report was signed by Senator DeVries, Chairman and concurred in by Senators Sturgulewski and Coghill. CS FOR HOUSE BILL NO. 476 (JUD) was referred to the Judiciary Committee.

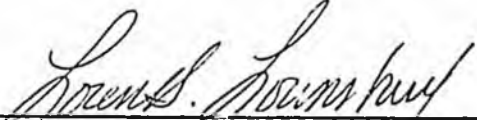
BILL HB0476
PAGE 02739
DATE 05/10/86
CHAMBER SENATE
TEXT The Judiciary Committee considered <CS FOR HOUSE BILL NO. 476> <(JUD) >(automobile insurance premiums) and a majority of the committee recommended do pass. The report was signed by Senator Rodey, Chairman and concurred in by Senators Halford and Faiks. Senator Ziegler signed "no recommendation". CS FOR HOUSE BILL NO. 476 (JUD) was referred to the Rules Committee.

CSHB 476: "An Act relating to automobile insurance premiums."

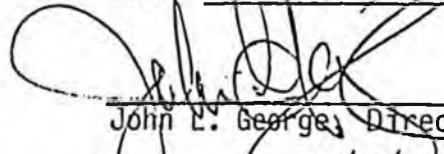
The department is in favor of this legislation. This proposal is intended to correct a deficiency in Ch 62 SLA 1984. The sponsor of that bill was attempting to provide an appeal mechanism for persons aggrieved by automobile insurance rate increases resulting from surcharges for an accident or violation appearing on that person's driving record, and which is alleged to be inappropriate.

Alaska Statute 21.36.420(d) was structured to require a notice of all premium increases by an insurer. The notice gives a reason for the increase and the right to an appeal under AS 21.39.090. It is not clear whether a notice of reason and notice of right to appeal is required on increases resulting from other than a change in the individual driving record. Such increases are subject to rate review and approval by the State before use and we believe that a right to appeal on top of the review process would be unduly wasteful of state resources.

This bill would clarify the requirement for notice by specifying the circumstances in which the notice is necessary and the scope of notice required. It does provide recourse for surcharges or increases that are not appropriate because a person was not convicted of a violation or at fault in an accident. We do not object to the notice of premium increase on approved rate filings because it is a fair thing to do. It does generate additional cost for the insurer which will ultimately be passed along to the consumer. It is, however, a reasonable and fair requirement.


Loren H. Lounsbury, Commissioner
Department of Commerce & Economic
Development

Date: 3/3/86


John E. George, Director of Insurance

Date: 3/3/86

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No: HB 476
Title: Automobile Insurance Premium

FISCAL DETAIL

Agency Affected: Division of Insurance
BRU: _____

Sponsor: M. M. Miller
Requestor: John L. George
Date of Request: February 19, 1986

Components: _____

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary.

Prepared by: John L. George, Director
Division: DIVISION OF INSURANCE

Phone: 465-2515
Date: February 19, 1986

Approved by Commissioner: *Lois H. Johnson*
Agency: Commerce and Economic Development

Date: February 19, 1986

Distribution (by Agency preparing fiscal note):

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

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 476
 Title: Automobile Insurance Premium

Sponsor: M. M. Miller
 Requestor: John L. George
 Date of Request: February 19, 1986

FISCAL DETAIL

Agency Affected: Division of Insurance
 BRU: _____

Components: _____

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary.

Prepared by: John L. George, Director
 Division: Division of Insurance

Phone: 465-2616
 Date: February 19, 1986

Approved by Commissioner: [Signature]
 Agency: Commerce and Economic Development

Date: February 19, 1986

- Distribution (by Agency preparing fiscal note):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agencies

SB 88: "An Act relating to increases or surcharges to automobile insurance premiums."


The Department of Commerce and Economic Development is in favor of this legislation.

The legislation proposes to introduce two exceptions to legislation adopted in 1984. That legislation, Ch. 62, SLA 1984, enacted AS 21.36.420, which requires that before a premium increase for automobile insurance can be applied, the insurer must first have sent a notice to the insured that the increase would take place. The statute also required that an insured be advised that he or she may request a hearing in Alaska before the insurer or its rating organization to appeal the application of the increased rate. The 1984 legislation provided for no exceptions.

The intent expressed during hearings held on the bill and by the sponsor was to provide notice of any rate increase for automobile insurance and entertain cases to provide an appeal mechanism for persons aggrieved by the rate changes because of points or surcharges applied to an insured. The proposed bill clarifies the notice of change provision by recognizing that there are situations where a lengthy period between notice and application does not really add to public protection and may, in fact, impair market availability. For example, change of car, addition of a young driver, or additional vehicles do increase the price of insurance and insureds know this is fact. Increases in such cases are not a surprise and a revision to the notice provision does not impact public protection.

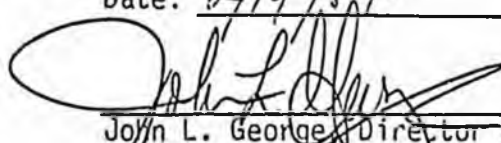
The real issue addressed with this proposal is the notice of a right to a hearing when a rate increase occurs. That feature is not reasonable in those cases where there is a change wrought by the insured and he is told that it will have a rate impact, or when an increase is due to a general rate increase which has been reviewed and approved by the Division of Insurance.

Our concern is that the absence of reasonable exceptions provides the opportunity for frivolous requests for hearings that would eventually burden the state with unnecessary hearings. This does not impair the ability of a person aggrieved by the application of the rating system from a hearing on the manner in which the system is applied if there is reason to believe that another application would be appropriate.



J. Anthony Smith, Commissioner

Date: 2/19/87



John L. George, Director of Insurance

Date: 2/18/87

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

REQUEST: SB 88

Bill Version: _____
Publish Date: _____

Revision Date: _____

Agency Affected: Commerce & Economic Development
BRU: Insurance

Title: An Act relating to increases or surcharges to automobile insurance premiums
Sponsor: Labor & Commerce Committee
Requestor: _____

Components: PUBLIC PROTECTION

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						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
----------------	------------	------------	------------	------------	------------	------------

REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
----------------	------------	------------	------------	------------	------------	------------

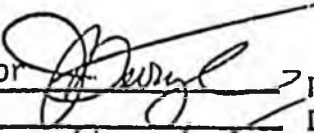
FUNDING: (Thousands of Dollars)


GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: John L. George, Director  Phone: 465-2515
Division: Division of Insurance Date: February 10, 1987

Approved by Commissioner: J. Anthony Smith  Date: February, 1987
Agency: Commerce and Economic Development

- Distribution (by preparer):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
 - Senate Secretary

SB

92

ALASKA STATE LEGISLATURE

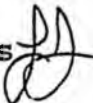
Home Address
3813 Denali Street
Ketchikan, AK 99901
907-225-9082

While in Juneau
P.O. Box V
Juneau, AK 99811
907-465-3743

Senator Lloyd Jones

M E M O R A N D O M

TO: Senator Tim Kelly, Chairman
Labor and Commerce Committee

FROM: Senator Lloyd Jones 

DATE: May 2, 1987

SUBJECT: SB 92, Cable Television Legislation

It is my impression that the approach outlined in Senate Bill 92 did not meet with your committee's approval. Nonetheless, the problems involved with state sanctioned cable television monopolies still exist.

I have had drafted a committee substitute that would approach the problem differently. This is not my first choice to deal with the problem but I believe it still is a valid option.

Perhaps you and I, with our staff, could get together to discuss this option. I welcome your suggestions.

5-0467L ✓
Cramer
4/30/87

Original sponsor: Jones

1 IN THE SENATE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 92 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act eliminating certification requirements and
7 imposing duties on certain utilities that furnish
8 cable television service."

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

10 * Section 1. AS 42.05.711(k) is amended to read:

11 (k) A utility that [WHICH] furnishes cable television service is
12 exempt from [THE PROVISIONS OF] this chapter [OTHER THAN AS 42.05.-
13 221 - 42.05.281] unless 15 [25] percent of the subscribers petition
14 the commission for regulation. A utility exempted under this
15 subsection shall

16 (1) at least once every six months, notify its subscribers
17 of the right to petition for regulation; and

18 (2) make available on request and at reasonable cost a list
19 of the utility's current subscribers.

6/7 — Mark

Dave Palmer w/City of Craig - 826-3275

is on legislative committee for Municipal League
wants to talk w/you SB 92

concerned about right of ways
→ how it will affect cities

ALASKA STATE LEGISLATURE

Home Address
3813 Denali Street
Ketchikan, AK 99901
907-225-9082

While in Juneau
P.O. Box V
Juneau, AK 99811
907-465-3743

Senator Lloyd Jones

M E M O R A N D O M

TO: Senator Tim Kelly, Chairman
Senate Labor and Commerce Committee

FROM: Senator Lloyd Jones *LJ*

DATE: March 23, 1987

SUBJECT: Sponsor Substitute for Senate Bill 92

I would appreciate it if you would schedule SS SB 92, An Act eliminating certification requirements for certain utilities that furnish cable television, for a hearing.

I have enclosed back-up materials for your and the committee's information.

Thank you.

M E M O R A N D O M

TO: Senator Lloyd Jones
FROM: Staff
DATE: March 15, 1987
SUBJECT: SS SB 92

Overview on Cable Television

Presently, cable television systems operate as an unregulated monopoly. In 1984, the Federal government deregulated cable television. The FCC preempts the states from regulating cable prices. Now companies can charge any price. Cable operators do not have to add local programming to their packages either.

Cable T.V. is considered a utility. What that usually implies is two things. One, that the utility offered is an essential service in today's world. Other utilities are electricity, water, sewer, telephone, etc.

Secondly, a utility is traditionally an operation that is only offered by one company. Utilities are usually geographic monopolies because no other company has access to the markets once the first company begins service. Quite often it is because it would too expensive for a second company to make

the necessary connections, like stringing telephone lines, for them to be competitive. This is referred to as "unnecessary duplication of services".

However it should be noted that many technological advances are occurring that strip the protection of a natural monopoly from utilities. Fiber optics and satellites in the telephone industry has allowed, after deregulation, companies like GCI, MCI and Sprint to compete with AT & T. In regards to cable television, it is now possible to string more than one cable on a utility pole.

Because a utility has a monopoly in any given community, government regulates the price it can charge its consumers. In Alaska, the regulator is the Alaska Public Utilities Commission (APUC).

Cable, as stated before, is an unregulated utility. And the State of Alaska is unable to set the rates it charges its consumers or the quality of the service. However, what the state can and does do is limit access to markets through the certification process of APUC.

In Alaska, there are cable companies in every major community. But APUC has only allowed one company to operate in a geographical area. Other companies, community associations

and groups that wish to compete in that area must petition the APUC for certification. APUC has never allowed more than one cable utility in an area even though it is legally allowable.

The purpose of SB 92 is to allow cable utilities who wish to compete reasonable access to the markets. Like telephone systems, it is now possible for other companies to compete in markets where companies already exist. Furthermore, this would allow community associations, condominiums and other groups to offer service to their members.

To accomplish what has been set out in the paragraph above, SB 92 eliminates the certification process that the cable operators have to go through. The certification process as described in sec. 42.05.221 is devoid of any substantive process except that it allows for the APUC to prohibit other companies from entering the market.

Cable companies have raised concerns that if APUC is eliminated as the certification agent then municipalities will step in and grant franchises in order to collect revenue. That is not the intent of SB 92, and according to Legal Services, is not possible (see appendix A).

Cable companies will still have to follow any municipal or state guidelines relating to the use of utility poles or

burying cable. SB 92 does not effect any laws or regulations affecting the technical process of providing cable service.

PRICES

The cost of a basic cable package varies within the state. One of the lowest prices is in Anchorage. The most expensive is on the North Slope. However most package prices fluctuate from \$28 to \$50 dollars. (See the attached price schedule, appendix B)

In other states, the same packages cost significantly less, The basic package is around \$13 in both Honolulu, HI and Salem, OR. Cable operators claim that the main reason for the price differential is the availability of free commercial stations that are already on the air. Whereas in Alaska, most cable systems use other state's commercial T.V. and transmit it, at a cost, to Alaska.

Another reason for the high price is because there is no competition, Cable operators charge the consensus price within the state. As long as all operators charge between \$28 and \$50 then the consumer is not going to petition for price regulation. There exists absolutely no impetus for a cable system to offer the lowest price to its consumers under the present system.

EFFECTS

It is expected that the signing of SB 92 into law will not cause a great turmoil in the cable television industry. Most markets will not see new companies moving in and price wars ensuing. However, the continuous upward spiral of prices will be abated. The cable operator will not wish to price himself into a situation where another company will enter his market.

However, a significant number of smaller non-commercial enterprises may begin to operate. Condominiums and apartments could offer unit packages. Small communities and villages may organize and offer service to its citizens. This will also suppress any upward movement of price beyond and acceptable inflation factor.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

6/7 — Mark

Dave Palmer w/City of Craig - 826-3275

is on legislative committee for Municipal League.
wants to talk w/you SB 92

concerned about right of ways
→ how it will affect cities

ALASKA STATE LEGISLATURE

Home Address
3813 Denali Street
Ketchikan, AK 99901
907-225-9082

While in Juneau
P.O. Box V
Juneau, AK 99811
907-465-3743

Senator Lloyd Jones

M E M O R A N D O M

TO: Senator Tim Kelly, Chairman
Senate Labor and Commerce Committee

FROM: Senator Lloyd Jones *LJ*

DATE: March 23, 1987

SUBJECT: Sponsor Substitute for Senate Bill 92

I would appreciate it if you would schedule SS SB 92, An Act eliminating certification requirements for certain utilities that furnish cable television, for a hearing.

I have enclosed back-up materials for your and the committee's information.

Thank you.

burying cable. SB 92 does not effect any laws or regulations affecting the technical process of providing cable service.

PRICES

The cost of a basic cable package varies within the state. One of the lowest prices is in Anchorage. The most expensive is on the North Slope. However most package prices fluctuate from \$28 to \$50 dollars. (See the attached price schedule, appendix B)

In other states, the same packages cost significantly less, The basic package is around \$13 in both Honolulu, HI and Salem, OR. Cable operators claim that the main reason for the price differential is the availability of free commercial stations that are already on the air. Whereas in Alaska, most cable systems use other state's commercial T.V. and transmit it, at a cost, to Alaska.

Another reason for the high price is because there is no competition, Cable operators charge the consensus price within the state. As long as all operators charge between \$28 and \$50 then the consumer is not going to petition for price regulation. There exists absolutely no impetus for a cable system to offer the lowest price to its consumers under the present system.