

State of Alaska FY2002 Governor's Operating Budget

Department of Community & Economic Development
Power Cost Equalization
Component

Component: Power Cost Equalization

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Component Mission

To reduce the cost of electricity for residential consumers and community facilities in rural Alaska.

Component Services Provided

The Power Cost Equalization (PCE) program has paid a portion of the monthly electric bills of rural consumers since 1985. The cost of power in rural Alaska is up to five times greater than the cost of power in urban Alaska. PCE funding is provided for 97 rural electric utilities, which collectively serve 190 communities and 76,000 residents across the state.

Legislation enacted in 1999 limits PCE eligibility to residential consumers and community facilities. Residential consumers can receive PCE support for up to 500 kilowatt hour per month. A monthly usage cap is also defined for community facilities - however, electricity consumption in this category is typically below the cap. As a result, PCE support can be paid for all of the electricity used for community facilities in most cases.

Legislation enacted in 2000 created a PCE endowment with an initial deposit of \$100 million. AEA anticipates that an additional \$90 million will be deposited in the PCE endowment during FY02 consisting primarily of the proceeds from Four Dam Pool divestiture. Endowment earnings are projected to provide approximately \$7.3 million for PCE in FY02 and approximately \$13.5 million per year for PCE beginning in FY03.

Component Goals and Strategies

Continue to issue timely and accurate PCE payments to 97 electric utilities serving 190 eligible communities.

Assist rural electric utilities in collecting the information and submitting the necessary reports to obtain PCE benefits.

Prepare an annual statistical report on rural electric utility sales, costs, rates, and benefits based on monthly PCE reports.

Continue to provide administrative training, when necessary, to electric utility staff to promote self sufficient and reliable utility record keeping and administration.

Key Component Issues for FY2001 – 2002

The PCE endowment fund is expected to generate approximately \$7.3 million for PCE in FY02. The endowment is expected to generate approximately \$13.5 million for PCE in future years beginning in FY03 after the proceeds from Four Dam Pool divestiture are deposited. The key issue for FY02 is that the estimated \$7.3 million contribution from the endowment fund, plus carry forward from FY01 and short-term interest earnings, leaves a shortfall of \$7.8 million.

It is likely that the amount needed in FY01 will be close to the \$15.7 million FY01 PCE appropriation.

Major Component Accomplishments for FY2000

Issued PCE payments as required by law in the amount of \$14.6 million.

Issued PCE statistical report for FY99.

Provided information as needed to the Governor and Legislature in connection with the creation of the PCE Endowment Fund.

Statutory and Regulatory Authority

AS 42.45

Key Performance Measures for FY2002

Measure: The average power cost for households receiving power cost equalization compared to average statewide costs.

(Added by Legislature in FY2001 version.)

Current Status:

Average rate for residential customers in rural Alaska in FY98, without PCE rate reduction: 29 cents per kilowatt hour.

Average rate for residential customers in rural Alaska in FY98, after receipt of PCE support: 20 cents per kilowatt hour..

Average rate for residential customers in Anchorage, Fairbanks, and Juneau in 1997: 9.9 cents per kilowatt hour.

Benchmark:

The benchmark is the average cost of power in urban Alaska, reported under "current status."

Background and Strategies:

Legislation enacted in 2000 includes the following statement of findings by the Legislature:

1. Adequate and reliable electric service at affordable rates is a necessary ingredient of a modern society and a prosperous developing economy.
2. At the current stage of social and economic development in the state, direct participation by the state is necessary to assist in keeping rates in high-cost service areas to affordable levels.
3. Providing a long-term, stable financing source for power cost equalization will permit and encourage the electric utility industry and its lenders to develop plans, make investments, and take other actions that are necessary or prudent to provide adequate and reliable electric service at affordable rates and to meet the health and safety needs of residents of the state.

Power Cost Equalization
Component Financial Summary

All dollars in thousands

	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Contractual	0.0	0.0	0.0
74000 Supplies	0.0	0.0	0.0
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	14,562.2	15,700.0	15,700.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	14,562.2	15,700.0	15,700.0
Funding Sources:			
1089 Power Cost Equalization Fund	14,562.2	15,700.0	15,700.0
Funding Totals	14,562.2	15,700.0	15,700.0

Estimated Revenue Collections

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
Unrestricted Revenues						
None.		0.0	0.0	0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0	0.0	0.0
Restricted Revenues						
Power Cost Equalization	51404	14,562.2	15,700.0	15,700.0	15,700.0	15,700.0
Restricted Total		14,562.2	15,700.0	15,700.0	15,700.0	15,700.0
Total Estimated Revenues		14,562.2	15,700.0	15,700.0	15,700.0	15,700.0

Power Cost Equalization

Proposed Changes in Levels of Service for FY2002

None.

Summary of Component Budget Changes

From FY2001 Authorized to FY2002 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2001 Authorized	0.0	0.0	15,700.0	15,700.0
FY2002 Governor	0.0	0.0	15,700.0	15,700.0