

**State of Alaska
FY2004 Governor's Operating Budget**

**Department of Community & Economic Development
Power Cost Equalization
BRU/Component Budget Summary**

BRU/Component: Power Cost Equalization

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

The mission of the Power Cost Equalization (PCE) program is 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 91 rural electric utilities, which collectively serve 189 communities and 79,708 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 hours 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.

Component Goals and Strategies

Continue to issue timely and accurate PCE payments to 91 electric utilities serving 189 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 FY2003 – 2004

Legislation enacted in 2000 created a PCE endowment with an initial deposit of \$100 million. An additional \$89.6 million was deposited in the PCE endowment during FY02 from the proceeds from Four Dam Pool divestiture (\$80.1 million) and Four Dam Pool Debt Service (\$9.5 million.) The Department of Revenue is statutorily required to invest the endowment in a manner likely to achieve a 7% rate of return over time. The endowment has experienced market value losses for its first two years in existence. The annual amount available for appropriation to the PCE program is 7%; this amount is independent of the endowment's return on investment. \$12.8 million was appropriated from the fund in FY03 and an additional \$12.6 million is allowed to be appropriated for FY04.

It was anticipated that most, but not all, of the funding to support the estimated \$15.7 million required annual appropriation would come from the earnings of the Endowment Fund. However, even with the more optimistic market earning assumptions at that time, the projections showed that approximately \$2.3 million in additional funding would be needed each year from other sources to be deposited into the PCE fund.

The PCE program is estimated to cost \$ 18.5 million in FY04 to operate the program at the statutorily established level. A \$15.7 million appropriation requires an estimated 85% prorated level of eligible costs.

Major Component Accomplishments in 2002

Issued PCE payments in the amount of \$15.6 million.

Provided information as needed to the electric utilities, PCE communities, the Governor and Legislature in connection PCE Legislation.

Statutory and Regulatory Authority

AS 42.45 Rural and Statewide Energy Programs
3 AAC 107 Grant Programs
3 AAC 52.600 Criteria for Determination of Power Cost Equalization

Power Cost Equalization
Component Financial Summary

All dollars in thousands

| | FY2002 Actuals | FY2003 Authorized | FY2004 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 | 15,619.6 | 15,700.0 | 15,700.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 15,619.6 | 15,700.0 | 15,700.0 |
| Funding Sources: | | | |
| 1089 Power Cost Equalization Fund | 15,619.6 | 15,700.0 | 15,700.0 |
| Funding Totals | 15,619.6 | 15,700.0 | 15,700.0 |

Power Cost Equalization
Proposed Changes in Levels of Service for FY2004

No service changes.

Summary of Component Budget Changes
From FY2003 Authorized to FY2004 Governor

All dollars in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--------------------------|----------------------|----------------------|--------------------|--------------------|
| FY2003 Authorized | 0.0 | 0.0 | 15,700.0 | 15,700.0 |
| FY2004 Governor | 0.0 | 0.0 | 15,700.0 | 15,700.0 |