

Don Schröer, Chairman
Alaska Public Utilities Commission

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Adjustments to power costs
for power cost equalization
program

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You have asked whether the adjustment to the 8.5 cents per kilowatt-hour ("kWh") floor, under the Power Cost Equalization ("PCE") Program, may be based **solely** on the current mean cost per kWh in Anchorage, Fairbanks, and Juneau. The short answer is no.

We have concluded that while the Alaska Public Utilities Commission ("APUC" or "Commission") may review all relevant factors when an adjustment to the power cost is made, including the mean cost per kWh in Anchorage, Fairbanks, and Juneau, the APUC **must** review the rate of change in fuel cost and power demand when an adjustment is considered.

The PCE Program was enacted in 1980 pursuant to sec. 42, ch. 83, SLA 1980, "for the purpose of equalizing power cost per kilowatt-hour statewide at a cost close or equal to the mean of the cost per kilowatt-hour in Anchorage, Fairbanks, and Juneau." AS 44.83.162(a). For the state fiscal year beginning on July 1, 1984, the legislature set a floor and a ceiling on the cost per kWh that would be paid to an eligible electric utility: the minimum amount was set at 8.5 cents per kWh and the maximum was limited to 52.5 cents per kWh. AS 44.83.162(d)(1). The legislature also provided that

during each following state fiscal year, the power costs for which power cost equalization may be paid to an electric utility shall be adjusted by the commission, considering the rate of change in fuel cost and power demand[.]

AS 44.83.162(d)(2). As used in this statute, the term "considering" is not a limiting word, and the Commission may review all relevant

factors and costs when making an adjustment, so long as the rate of change in fuel cost and power demand is one of those factors.

For example, during the adjustment review the Commission may consider overall "power costs," which are defined as "costs used in determining power cost equalization in accordance with (b) and (d) of this section [AS 44.83.162]." Costs for consideration under those subsections include "all allowable costs, except return on equity, used by the commission to determine the revenue requirement for electric utilities subject to rate regulation under AS 42.05."

AS 44.83.162(b). Under the Alaska Public Utilities Commission Act, AS 42.05, the legislature delegated broad authority to the APUC for regulation of public utilities, including the duties assigned to the agency under the PCE Program. AS 42.05.141(a)(1) and (b). Since the "powers of the commission shall be liberally construed to accomplish its stated purposes," the APUC has great discretion in determining which relevant costs are considered in a review of a utility's revenue requirement, and when making adjustments to the PCE Program. AS 42.05.141(a)(1).

In conclusion, the APUC is under a mandate to annually review, and adjust when necessary, the power costs for which PCE may be paid. This review must include any change in fuel cost and power demands and may include all costs normally considered in determining a utility's revenue requirement. Since the purpose of the PCE Program is aimed at equalizing the cost of power statewide at a cost close to the mean cost per kWh in Anchorage, Fairbanks, and Juneau, that factor may also be considered during the annual review.

We hope that this has sufficiently answered your question. Please contact the department if you have additional concerns.

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