Power Project Fund Loans & PCE Considerations

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AEA’s mission is to reduce the cost of energy in Alaska

The Power Project Fund (PPF)

- "Serves as the main source of state assistance for energy projects" (HB 306, 2010)

- A distinct and separate revolving loan fund within AEA consisting of funds provided by the Legislature as well as loan repayments, interest and fees

The Power Project Fund is available to make loans to the following entities:

- Electric utilities
- Regional electric authorities
- Municipalities
- Regional village corps
- Village councils
- Independent power producers

The Power Project Fund can help with:

- Electric generation
- Bulk fuel storage
- Transmission and distribution
- Waste energy
- Energy efficiency and conservation
- Alternative energy facilities and equipment

Hiilangaay Hydro, POW Island

The Power Project Fund is flexible

- Low and negotiable interest
- Reasonable repayment
- Loan term is related to life of the project

The Power Project Fund is affordable

- Sliding scale application fee
- 1% closing fee
- Application fee credited toward closing fee
- Closing fee can be repaid through loan payments

Loan Amount	Application Fee
< $100,000	$200
$100,001 - $500,000	$1,000
$500,001 - $1,000,000	$2,000
> $1,000,000	$5,000

To use PPF loans:

- Applicants make direct application to AEA for loan funds
- Loans up to and including $2 million can be approved by Loan Committee
- Loans greater than $2 million require Board approval
- Projects with cumulative State involvement of $5 million or more require legislative authorization to apply

Power Cost Equalization (PCE) Program

- Intended to reduce (equalize) electrical rates in high-cost parts of the state
- Created in 1984
- In response to State investment in Four Dam Pool hydro projects
- Distinction between the program and the endowment

Swan Lake Hydro near Ketchikan

Power Cost Equalization Vocabulary

- **PCE Floor** or **Base Rate**: The weighted average cost per kilowatt hour in Anchorage, Fairbanks and Juneau
- **PCE Level**: The state reimbursement per eligible kWh calculated for each community based on eligible fuel and non-fuel costs (more on next slide)
- **Effective Rate**: The cost per kWh that the customers will pay for a PCE-eligible kWh (rate charged by the utility minus PCE level)
- **PCE Program**: Provides reimbursements to utilities for kWh sold to eligible customers
- **PCE Endowment**: Fund invested by the Alaska Department of Revenue that pays for the PCE Program and administration

PCE levels are calculated based on the least of:

1. Cost based: 95 percent of (eligible per kWh cost minus the base rate)
2. Rate based: the per Kwh rate minus the base rate
3. 95 percent of the (maximum eligible cost/kWh ($1.00) minus the base rate)

PCE Level – What's Included

- Fuel cost for current generation is an eligible expense.
- Fuel cost associated with past generation (old fuel debt) is not an eligible expense.
- Non-fuel costs include: salaries, insurance, taxes, parts and supplies, <u>interest and depreciation expense</u>, and other reasonable costs. For non-regulated utilities return on equity is NOT an eligible cost.
- Costs associated with renewable energy generation are an eligible non-fuel cost.

Correct accounting of costs is important

Accounting errors or omissions can lead to reduced PCE payments.

- Include depreciation of non-grant funded assets
- Make sure that debt for utility expenses is incurred by the utility. If the utility cannot take a loan make sure the utility is billed for the debt payments.
- Include interest on debt related to utility expenses.

PCE can help pay off debt

Example:

- $200,000 loan, 10 year term, 4% interest

- Total annual payments in all years = $24,365
  - Annual interest payments = $7,753 (yr 1) to $597 (yr 10)
  - Annual principal payments = $16,612 (yr 1) to $23,707 (yr 10)

- Annual depreciation expense (straight line) = $20,000

- Eligible non-fuel expenses in first year =
  - interest payments $7,753 + depreciation $20,000 = $27,753

PCE debt example cont'd

- Roughly 95% of new eligible costs are covered by PCE.
- In a community with 40% of all sales PCE eligible around 38% of new eligible costs will be paid by the PCE subsidy.

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Interest payment	$ 7,753	$ 7,078	$ 6,377	$ 5,646	$ 4,886	$ 4,095	$ 3,272	$ 2,416	$ 1,525	$ 597
Depreciation expense	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Total new eligible expense	$ 27,753	$ 27,078	$ 26,377	$ 25,646	$ 24,886	$ 24,095	$ 23,272	$ 22,416	$ 21,525	$ 20,597
95% of new expense	$ 26,365	$ 25,724	$ 25,058	$ 24,364	$ 23,642	$ 22,890	$ 22,108	$ 21,295	$ 20,449	$ 19,567
Amount covered by PCE subsidy	$ 10,546	$ 10,290	$ 10,023	$ 9,745	$ 9,457	$ 9,156	$ 8,843	$ 8,518	$ 8,180	$ 7,827
Amount covered by ratepayers (not PCE eligible)	$ 13,818	$ 14,074	$ 14,341	$ 14,619	$ 14,907	$ 15,208	$ 15,521	$ 15,846	$ 16,185	$ 16,537
Total loan payment	$ 24,364	$ 24,364	$ 24,364	$ 24,364	$ 24,364	$ 24,364	$ 24,364	$ 24,364	$ 24,364	$ 24,364

For more information:

Power Project Fund Loans

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