Fund Source Report

1089 PCE Fund Power Cost Equalization & Rural Electric Capitalization Fund

Year Authorized	Year Repealed	Active?	Mental Health?	Duplicated?	Fund Group
1993		No	No	No	Designated General

No Appropriations during last 10 years

Legal Authority

AS 42.45.100

Source of Revenue

The fund consists of money appropriated to it under AS 42.45.100. Appropriations come from the PCE Endowment Fund, NPR-A Fund, interest earned on the fund balance, and other monies.

Direct funding of PCE beginning in FY11 eliminated the need for this fund.

Restrictions on Use

The fund was established to allow electrical power rates in rural communites to approach the rates in urban areas by paying money from the fund to eligible utilities in the state and by making grants to eligible utilities to improve the performance of the utility. Money appropriated to the fund may be spent without further appropriation. Grants are limited to 75% of the cost of a project. Not more than 3% of the annual fund balance can be distributed as grants.

Description and History

In the late 1970's the transformation of a significant portion of Alaska's new oil wealth into a "permanent fund of hydroelectric power projects" with dividends of perpetual inexpensive energy for Alaska was proposed. Inexpensive energy was seen as one of the best means for promoting economic development and the (never-constructed) Susitna Dam was the first proposed project to meet this goal. The Alaska Power Authority was created in 1976 with $1 billion to spend on constructing a series of power projects. Because these hydroelectric projects were not expected to extend cheap power to rural areas, the power cost equalization (PCE) program was conceived as a way to reduce electrical costs in rural areas. The PCE program began in FY85 and was funded with annual GF appropriations until FY94.

Ch 18, SLA 93 moved several programs from the Alaska Energy Authority to the Department of Community and Regional Affairs. The largest and most controversial set of programs and funds transferred from the Energy Authority involved the Power Cost Equalization and the Four Dam Pool. the Power Cost Equalization and Rural Capitalization Fund, the Southeast Energy Fund, and the Power Project Fund receive the payments from the loan agreement between the State and the Alaska Energy Authority. The loan will be paid through year 2030.

In addition to moving these programs, Ch. 18, SLA 1993 also established the Power Cost Equalization and Rural Electric Capitalization Fund (the "PCE Fund") with a General Fund appropriation of $66.9 million. The fund, comprised of the original appropriation, interest earned, 40% of the annual ending balance of the Four Dam Pool Transfer Fund and other appropriations, has been used since 1995 to fund the PCE program. Despite several formula changes designed to limit PCE outlays, in FY00 the PCE fund balance declined to the point that it was no longer sufficient to cover program costs.

In an attempt to solve the ongoing problem of funding the PCE Program, Ch. 75. SLA 2000 established the Power Cost Equalization Endowment Fund (PCE Endowment--see fund code 1169). The PCE Endowment was capitalized with $100 million from the CBR. In addition, an amount equal to the proceeds of the sale (and other incidentals) of the Four Dam Pool Hydroelectric Project, which was about $90 million, was appropriated to the PCE Endowment Fund.

The earnings and principal of the PCE Endowment are to be used to fund the PCE Program. The enabling legislation directs the Commissioner of Revenue to invest the fund in a manner likely to achieve at least a 7% nominal return over time. Up to 7% of the average market value for the previous three fiscal years may be appropriated to the PCE Fund to be used for PCE expenditures.

Because the endowment payout was insufficient to fully fund the PCE formula; GF (and occasionally other fund sources) have been appropriated annually.

Beginning in FY11, the endowment payout has been supplemented with "the amount of GF necessary to fully fund the PCE formula". This approach:
1) fully funded the program with a combination of endowment payout and general funds,
2) eliminated the need for supplemental appropriations and/or pro-rata reductions in PCE payments, and
3) made the PCE fund an unecessary intermediary step in the funding mechanism.

The fund was deactivatedwhen the funding methodogy was revised.

See code 1169 (PCE Endowment)