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) 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

PPF is flexible and affordable

- Low and negotiable interest
- Reasonable repayment
- Loan term is related to life of the project
- Sliding scale application fee
- 1% closing fee
- Application fee credited toward closing fee
- Closing fee can be repaid through loan payments

Power Cost Equalization (PCE) Program

- Intended to reduce (equalize) electrical rates in high-cost parts of the state
- Created in 1984
- Established in response to State investment in Four Dam Pool hydro projects

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 $/kWh 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 <u>are</u> an eligible non-fuel cost.

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

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.

For more information:

Power Project Fund Loans

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Power Cost Equalization

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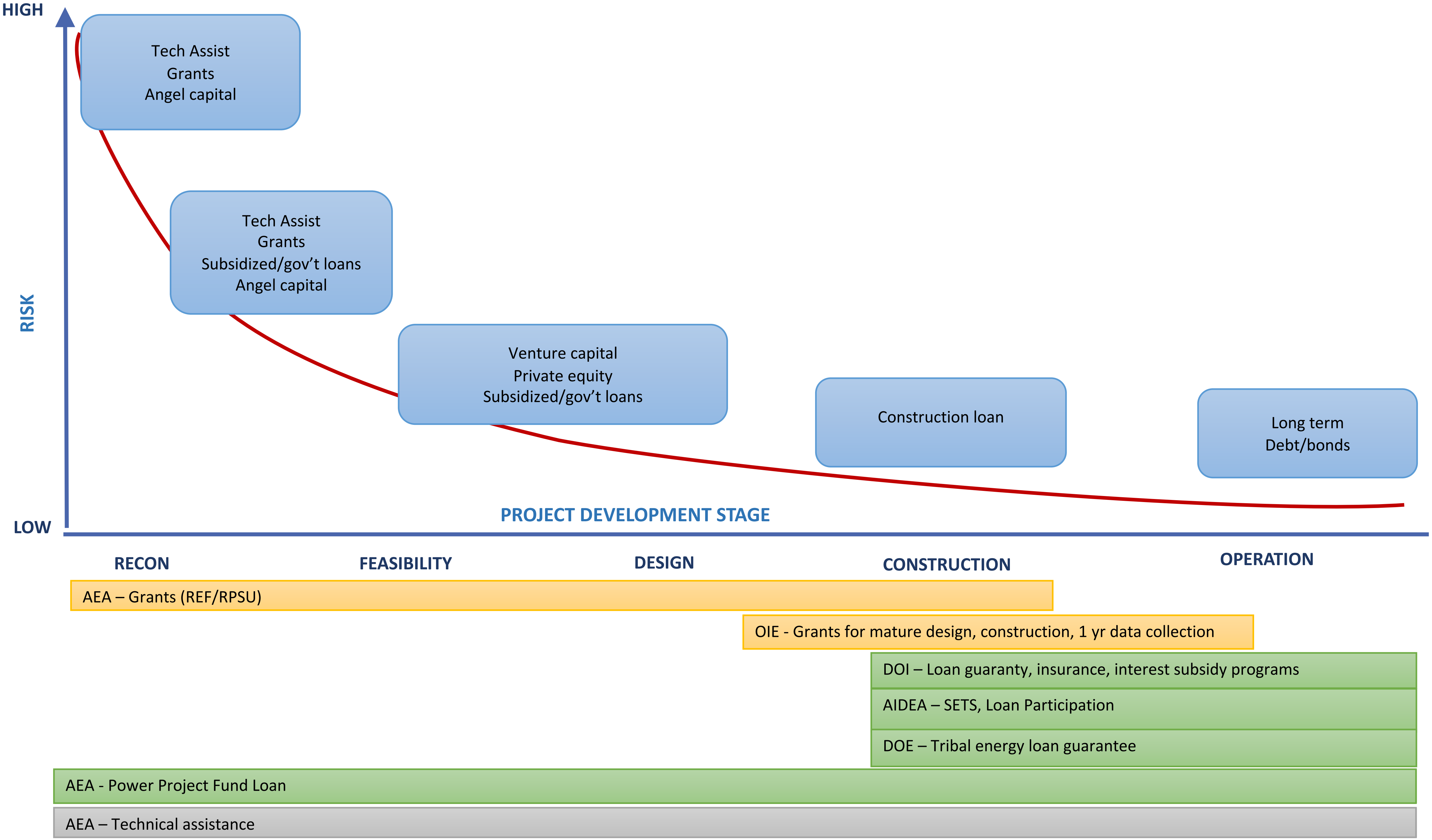
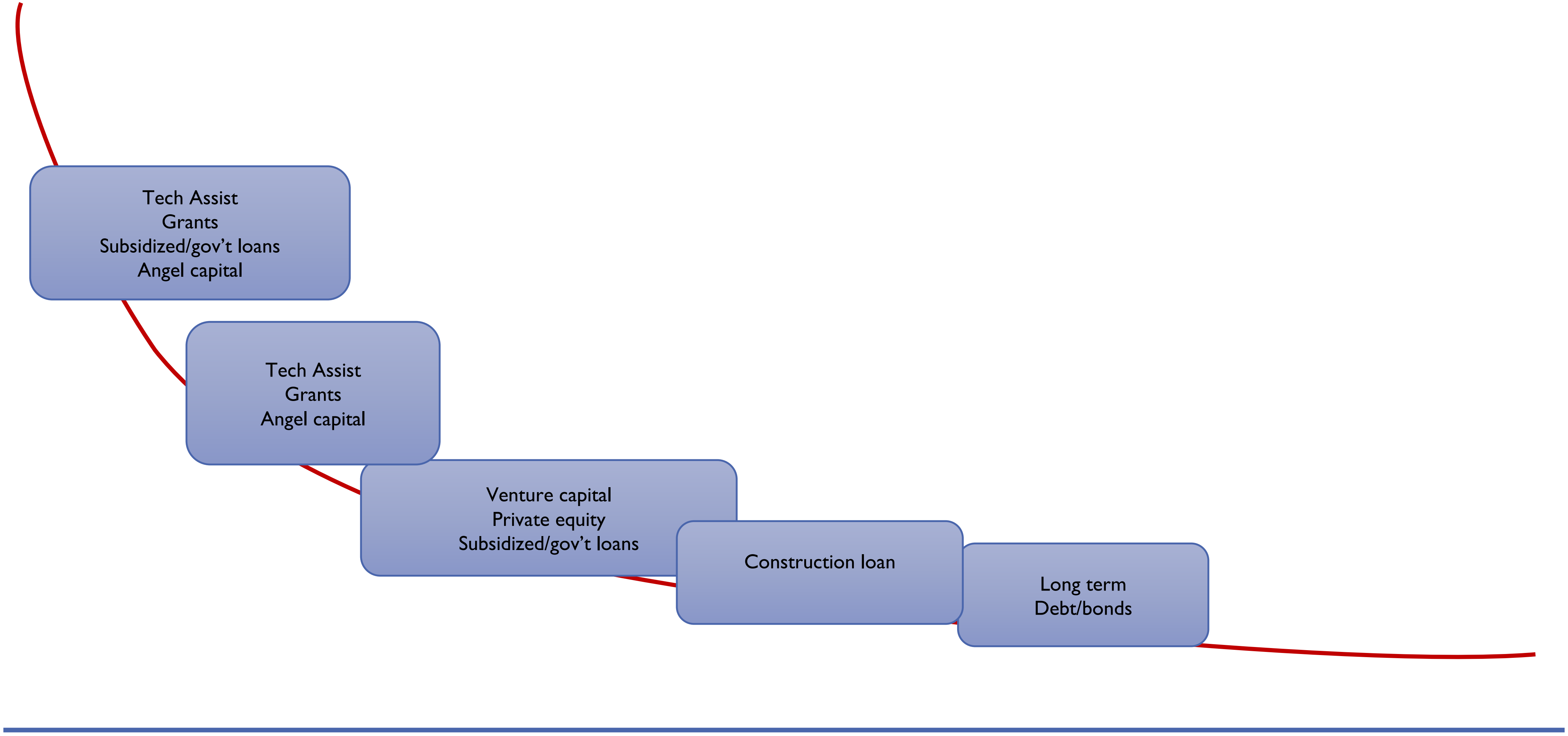

HIGH
RISK
LOW
Tech Assist
Grants
Angel capital
Tech Assist
Grants
Subsidized/gov't loans
Angel capital
Venture capital
Private equity
Subsidized/gov't loans
Construction loan
Long term
Debt/bonds
PROJECT DEVELOPMENT STAGE
RECON
FEASIBILITY
DESIGN
CONSTRUCTION
OPERATION
AEA – Grants (REF/RPSU)
OIE - Grants for mature design, construction, 1 yr data collection
DOI – Loan guaranty, insurance, interest subsidy programs
AIDEA – SETS, Loan Participation
DOE – Tribal energy loan guarantee
AEA - Power Project Fund Loan
AEA – Technical assistance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