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Sunday, April 27, 2008
Story last updated at 4/27/2008 - 4:31 am

New power rates set to overcollect

By Gregg Erickson | My Turn

Economic shocks make for a big story, and exaggerated descriptions of potential economic impacts are often found in such stories. Loss of Juneau's connection to low-cost power from the Snettisham hydro project was no exception.

"AEL&P is burning through \$1 million every three days in diesel fuel costs to keep Juneau's juice flowing," wrote an Empire reporter, paraphrasing an official of Alaska Electric Light & Power, the local electric utility. The statement may have been true at the time, but it soon became untrue as the utility's customers made the expected sharp reductions in usage. Last week the utility estimated its use of diesel had fallen to less than two-thirds the rate initially stated.

Even at the reduced level, the cost of diesel is \$200,000 per day. That's 5.4 percent of the average daily income of Juneau residents. How that money is going to be extracted from the pockets and purses of Juneau residents and the cash registers of Juneau businesses is what this story is about.

AEL&P wants state regulators to approve an emergency rate increase that would boost a hypothetical \$125 monthly residential electric bill to \$561. According to AEL&P's calculations the new rate will raise \$300,000 of additional revenue per day.

But wait; \$300,000 is \$100,000 more than AEL&P claims it needs to pay its daily fuel bill. What gives?

AEL&P explains that they started burning additional fuel on April 16. By the time the new rate is supposed to go into effect, on May 1, the company will already have used two weeks of extra diesel. Their plan front-loads the rate, allowing them to collect in four weeks their projected fuel cost for six weeks. The company says that's OK, because it will "true-up" later, adjusting the rate downward after power consumers have caught up on what they "owe" the utility.

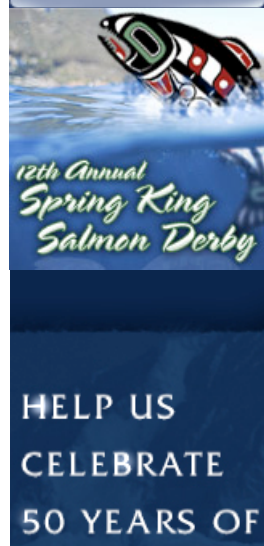
In terms of softening the blow to the Juneau economy, one could have hardly chosen a worse scheme. Instead of trying to shoehorn six weeks of costs into a four-week billing cycle AEL&P should be seeking ways to stretch the payments out. The company will be paid, but it doesn't need to be paid in such a hurry. If cash flow were that big a problem, then the company wouldn't be sufficiently creditworthy to be in the utility business.

Other elements of the AEL&P's proposed emergency rate also deserve scrutiny. AEL&P continues to draw power



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from three small hydro projects that remain connected to the Juneau grid. With overall power consumption reduced by 20 percent, as it was in the first week after the line went down, the low-cost hydro plants supply 21 percent of area power needs. If efforts since that first week have further reduced power use, then the percentage of low-cost hydro in the mix has risen. If that's the case, as more recent data indicates, then AEL&P's emergency rate is set to overcollect for this reason as well.

Eliminating the front-loading would reduce the hypothetical residential May billing from \$561 to \$416. Further reductions would result from a more realistic estimate of conservation. The reductions won't cause backsliding on conservation, it's still going to hurt, but it would moderate the peak of the impact on Juneau's economy, easing the economic shock on households and local businesses.

It is not clear how the Regulatory Commission of Alaska will handle AEL&P's proposal.

"If the commission disagrees, they can let us know," said Connie Hulbert, AEL&P's secretary-treasurer.

The commission could let the new rate to go into effect as soon as May 1, without even a hearing or review. If readers believe the rates deserve a second look, they should communicate soon with the Regulatory Commission of Alaska. The e-mail is rca.mail@alaska.gov. Reference proposed tariff TA360-1.

The ultimate economic impact of the busted transmission line depends on how long it is down. Whatever that duration, the additional costs of diesel fuel will be paid by Juneau consumers. Consumers have moderated the economic shock by reducing consumption, allowing a bigger percentage of the load to be covered by the remaining hydro plants. It makes no sense to undo much of that economic gain by front-loading the emergency rates, or by overstating the rate increase needed by underestimating the effectiveness of Juneau's conservation effort.

Correction: In my April 6 column I said Rep. Les Gara, D-Anchorage, wanted a special cash payout of state money to "go only to the poor." Gara's proposal would have given the money to the more than half of the state's residents with household incomes less than 300 percent of the federal poverty level. I should have made that clear.

• Economist Gregg Erickson is the owner of a Juneau consulting firm (www.EricksonEconomics.com). He can be reached at gerickso@alaska.com.

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READER COMMENTS

- Posted by: [StillBob](#) at Apr 27, 2008 at 10:43:28 AM + 2 Rating
Why do I find AELP's credibility to be suspect?
- Posted by: [mstrasse1](#) at Apr 27, 2008 at 10:52:47 AM
Thanks to our city leaders AEL&P already has \$3 million in interest free money. Why wouldn't our leaders place that \$3 million in a fund to actually help the citizens who will definitely struggle to make any rate increase monthly payments.
- Posted by: [halfrack](#) at Apr 27, 2008 at 11:37:20 AM + 1 Rating
I believe the principle players here are all part of the "good 'ol boys" network.
- Posted by: [darrell_karen](#) at Apr 27, 2008 at 11:55:40 AM
yup all them BIG Boats tieng up using our power at their pre arrnaged contract with the city??? More Tour Busses brought online by Tour Boat Companies, how many new jewelery stores did they add this year?Some one tell me what they pay per Kilo watt
- Posted by: [tamilil](#) at Apr 27, 2008 at 12:39:36 PM + 1 Rating
like I said before:
AELP + CBJ = CBC (Corrupt Bastards Club)
I think there might even be some caps left over from the last CBC members, they won't need them cuz THEY ARE IN JAIL.
- Posted by: [junolocal](#) at Apr 27, 2008 at 02:20:35 PM
hoonahfish - somebody is listening to you.

"With overall power consumption reduced by 20 percent, as it was in the first week after the line went down, the low-cost



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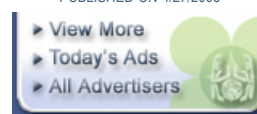


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Posted by: [junolocal](#) at Apr 27, 2008 at 02:27:42 PM

So, where does AEL&P's RCA approved 13% profit margin come in? Are they expecting 13% on the rate hike?

Posted by: [al7kz](#) at Apr 27, 2008 at 02:31:52 PM

+ 2 Rating

I believe this also designed to lower the summer rates for the tour boats, gift shops, and Mr. Roberts Tram.

The ordinary people of Juneau will be subsidizing those users with high rates though the winter.

Thank you Mayor Botelho, and Assembly Member/AELP employee David G. Stone.

Posted by: [StillBob](#) at Apr 27, 2008 at 08:55:08 PM

Concur with al7kz. I'd rather see us pay the bill this summer while we have lots of electricity-using tourist activities in town helping to shoulder the burden. If their rates are lowered for the summer, they will have less incentive to conserve, and we'll pay for it all next winter while their shops are boarded up and the power's turned off.

Let the City use that \$3M to give no-interest loans to citizens who can't handle the increased rates instead of AELP.

Posted by: [Jess_Wundring](#) at Apr 27, 2008 at 09:40:09 PM

What a great year to own stock in AEL&P...their profit margin is guaranteed and their expenses will be going through the roof.

Posted by: [akromper](#) at Apr 28, 2008 at 01:43:35 PM

I'm waiting to hear how privatizing the utilities was great for the consumer. Profit margins calculated in, overselling cheap power to the mine and stiffing the locals later, crappy infrastructure with no improvements to mitigate potential environmental disasters, billing a higher rate for whole month even though the higher rate didn't kick in til later. Who's subsidizing who here? I'd recommend that Juneau seriously consider bring the utility back under muni control. What a SCAM!!

Posted by: [gmpatton](#) at Apr 28, 2008 at 05:36:38 PM

akromper "I'd recommend that Juneau seriously consider bring the utility back under muni control".

The "utility" has never been under "muni control".

Posted by: [akromper](#) at Apr 28, 2008 at 08:24:51 PM

Juneau's never has been? That's too bad (I'd just assumed it got dereg'd and sold), I guess people have never known better. It is my firm belief that a public commodity that is so necessary and there are few options otherwise shouldn't be in the hands of a private entity that is set up to make a profit no matter what. The scenario that is going on and went on last fall was such BS I can't believe they got away with it. Maybe there should be a second utility to put some long term contracts in place with the hydro, set up it's own resources and give the locals an option. I sure don't know what it could be, but it'd have to be better than the barrel AEL&P has got everyone over. Damm, I'm surprised they aren't offering to buy cheap solar power back from some greenies so they can charge everyone else double what it cost them.

Posted by: [LastFrontierMyButt](#) at Apr 28, 2008 at 09:53:12 PM

I agree with al7kz and StillBob on this one. I also agree with Gregg, good letter.

I do not like the loan plan. So far the city has proposed loaning \$3mil to AEL&P interest free to spread the rate out over 12 months. Next they propose exempting the sales tax on the increased electric rate for only six months of that.

One disadvantage to the 12 month spread is the fact that we will have to pay that higher rate through next winter, during times of increased usage. That will also likely be the time the city expects to collect their extra sales tax.

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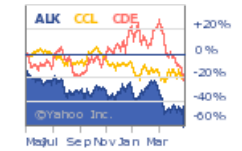
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