

FAQs concerning AEL&P's Rate Filing

AEL&P filed for a rate increase with the Regulatory Commission of Alaska on May 3, 2010. The company is seeking an interim increase of 18.5% on total electric sales.

Why does AEL&P need a rate increase?

Like any other business, AEL&P must have the funds to operate and maintain the equipment used to provide service, pay our suppliers, loans, and taxes, and make a reasonable return on investment. AEL&P's return on investment is primarily reinvested in system improvements to help assure safe and reliable service, while making sure we have the electric supply to meet Juneau's current and future needs.

AEL&P is not guaranteed a given rate of return, but is allowed the opportunity to earn an authorized rate of return on our overall investment in the assets used to provide electric service.

Rate increases do not occur very often. AEL&P's last rate case was filed 5 years ago. The rate case prior to that was filed 5 years earlier.

From the date of a new rate increase, operating and maintenance costs continue to increase. Since our last rate increase, the Anchorage Consumer Price Index has increased by 15.2%.

The Lake Dorothy Hydro project is now online and serving AEL&P's service territory. This project is a significant addition to AEL&P's hydro resources and will offset future diesel costs. The operating costs and investment in Lake Dorothy need to be recovered through our rates going forward.

Why is AEL&P allowed to operate as a monopoly?

Early on in the electrification of the US, decisions were made to allow one company the right to provide electricity to a specific service area, so that the huge cost associated with duplicate equipment, wires, and operations could be avoided. Avoiding higher average costs (and higher rates) is considered to be in the best public interest. The right of utilities to serve comes with obligations – amongst them, to serve everyone equitably and fairly and to assure that electric supply is always available to meet the changing needs of the service area. To balance the lack of true competition and assure that the public interest is served, utilities are regulated by their respective states. Utilities are issued Certificates of Public Convenience and Necessity by states in order to serve the public. Regulated utilities must seek the approval of their regulating agencies for their business practices and rates.

The Regulatory Commission of Alaska (RCA) is the agency responsible for oversight of Alaska's utilities. You can find information related to AEL&P's filings with the RCA at their website: <http://rca.alaska.gov> The search tool at the right side of their home page includes an entity search that makes it easy to find our filings.

How will the RCA process AEL&P's rate case?

AEL&P will file a Tariff Advice request that includes a volume of documentation required by the RCA to support our request for an increase in our prices. The RCA will open a formal docket and assign a case number.

Shortly after the filing date, the RCA will issue a public notice that will be printed in the Juneau Empire. The public notice will include information on how our customers can file comments.

Permanent rates can take 15 months from the filing date to be finalized. However, an interim and refundable increase is often allowed by the RCA. During the 15 months, the RCA staff will review the documentation and may ask for additional information. During this review period, the RCA may also hold a public hearing.

How is the customer's point of view represented?

In addition to the RCA, the Department of Law's Regulatory Affairs and Public Advocacy Section (RAPA) often elects to participate in a rate proceeding. RAPA will review AEL&P's filing and submit testimony as advocates on behalf of the public.

Any customer may also submit written comment to the RCA, and copy AEL&P.

How can AEL&P's customers stay informed about the rate proceeding?

There will be a page on our website where the status of the rate case can be found. The RCA's site is also a good place to look for information.

How does a utility decide how much of a rate increase to request?

They must calculate the amount needed to recover operating expenses plus a reasonable return on investment. This is called the revenue requirement. The difference between what a utility is currently receiving through rates and the revenue requirement is known as a revenue deficiency. In AEL&P's case, all revenue received from interruptible sales including sales to Princess Cruises and Greens Creek Mine ultimately reduces the rates paid by our other customers.

Operating Expenses are based on a "test year." 2009 expenses are "normalized" to reflect known and measureable changes for the test year. Contributions AEL&P makes to support local activities and organizations are not included in calculating rates. The RCA staff looks closely at these expenses as they review our rate case.

"Allowed Return" is a percentage authorized by the RCA as a component of the revenue requirement. Utilities are allowed the opportunity to earn a reasonable rate of return to ensure the ability to attract necessary capital, and to allow the utility to maintain its credit and financial integrity.

Our "Allowed" rate of return does not mean AEL&P is guaranteed that rate of return. In fact, the rate of return is soon undermined by the ever increasing cost of providing service until the next rate case occurs.

Is it true that Greens Creek Mine and Princess Cruises will not have a rate increase?

This is not true. Greens Creek Mine's rate increased by more than 100% starting September 1st, when Lake Dorothy went online. This was in accordance with the Power Sales Agreement approved by the RCA in 2005. AEL&P has just negotiated an amendment to the contract for interruptible power with Princess Cruises. This amendment includes a rate increase of over 100%, which went into effect on an interim basis on May 17, 2010.

Both of these interruptible customers must own and maintain their own diesel generation for periods when we cannot serve them with hydro. This includes potentially long periods when AEL&P may need to supplement our existing hydro resource with diesel generation. The rates Greens Creek and Princess Cruises are paying are actually slightly higher, on a cents per kilowatt-hour basis, than the rate our other large commercial customers will pay under the permanent rates we are requesting, and these other large customers cannot be interrupted and are not required to invest in and produce power with their own stand-by diesel systems.

It benefits our community to have large interruptible customers such as Princess Cruise Lines and the Greens Creek Mine to help pay the increased costs of Lake Dorothy. Revenue from the mine reduces the rate increase by more than half. All revenue received from Princess Cruises is passed directly to our customers and is shown as a credit on our bills in the Cost of Power Adjustment. Please note that COPA is not always a credit, although sales to Princess Cruises will always reduce what the COPA would otherwise be.

What has been the history of rate increases over the past years?

AEL&P's rate increases over the last 10 years are roughly equal to the increase in the Anchorage consumer price index for all urban consumers (CPI-U, Anchorage). Cumulatively, AEL&P's three rate increase between test year 1999 and test year 2009 (4.41%, 3.65%, and 22.1%) reflect a 32% increase. By comparison, CPI-U, Anchorage increased from 148.4 to 191.744 from 1999 to 2009,³ which reflects a 29% cumulative increase.

What is AEL&P's residential rate compared with the residential national average?

Each energy related utility must file its rate related statistics with the Energy Information Administration. This is the best source of information for finding out about the price of electricity paid nationally, and is the most up-to-date. In order to compare apples to apples, they ask for information by customer rate class, and take the total revenue received annually by class, divided by total number of kilowatt-hours sold to get their figures.

For residential customers, the national average was 11.49 cents, based on the rolling 12 month average (Jan 2010). The total average for 2009 was 11.55 cents, and 11.26 cents for 2008.

As reported to the Federal Energy Regulatory Agency, AEL&P's residential revenue per kilowatt-hour for 2009 was 11.39 cents.

I thought AEL&P said our rates would go down when Lake Dorothy came online. ????

We did tell people future rates with Dorothy would be lower than if we didn't build it and instead had to run more and more diesel. But rates have to go up to pay for the new investment in Dorothy. Here are some references to Empire articles where we told the reporter that rates were going to rise.

February 26, 2007

"The power company foresees that construction of the project will result in a rate increase for AEL&P customers. But rate increases are coming in any case, and Wood said they should be lower with the new power source than without it - especially since long-term petroleum prices are expected to continue to climb."

http://www.juneauempire.com/stories/022607/loc_20070226011.shtml

July 22, 2008

"The final cost will be passed along to electric ratepayers in the form of a rate hike of a few cents per kilowatt-hour used, Willis said. As a regulated utility, any rate changes proposed by AEL&P have to be approved by a state regulatory agency."

http://www.juneauempire.com/stories/072208/loc_307861018.shtml

September 7, 2009

The security Lake Dorothy provides will come at some cost. Power rates in Juneau, now set at a base rate of about 10 cents per kilowatt hour by the Regulatory Commission of Alaska, will likely have to be raised about 2 cents to pay for the new plant, said Tim McLeod, president and general manager of Alaska Electric Light & Power.

http://www.juneauempire.com/stories/090709/loc_490253438.shtml