INSIDE PASSAGE ELECTRIC COOPERATIVE, INC.
Testimony before the House Energy Committee
October 23, 2009

IPEC has actively pursued reduced and stable priced electric rates on behalf of its member owners for many years. The high and volatile price of diesel has and will continue to be a detriment to the villages we serve by limiting their economic development opportunities and sustainability enjoyed by the urban areas. In 2008, IPEC spent a total of $2,492,881 on fuel for electrical generation which consumed 687,854 gallons of fossil fuel. One of our biggest challenges is the fact we maintain four different power plants that run independently from each other and are not connected to a power grid.

IPEC has adopted an Energy Plan to become diesel independent by 2015. In order to accomplish this goal we have outlined the following plan for each of our service areas:

Angoon

IPEC, Southeast Conference, the Alaska Energy Authority, the City of Angoon, Representative Bill Thomas, Senator Albert Kookesh, and residents of Angoon are seeking common ground to work together to build the Thayer Creek Hydro Project. Kootznoowoo has the rights to develop the project, and IPEC is the certificated and regulated electric provider for Angoon. It is conceived that IPEC will buy power from Kootznoowoo when the project is built as long as it is cheaper than diesel-generated power. This project would eliminate approximately 143,108 gallons of fossil fuel on a yearly basis.

Hoonah

IPEC had no choice but to abandon its decade long effort to secure funding for the Hoonah-Juneau intertie after the price of submarine cable construction put the project at up to $45 million. Submarine cable is expensive and risky, and the section of Chatham Strait we would need to cross was very deep, the deepest the cable manufacturer had ever attempted.

The new direction for lower cost renewable power for Hoonah is two-fold. First, we are working with AEA to develop two small hydro projects for Hoonah which would displace up to 70% of Hoonah's diesel-generation which is approximately 348,704 gallons annually. Second, IPEC and Sealaska, with the help of AEA, have submitted a grant to study the geothermal generation potential of a site at the head of Tenakee Inlet, known as site SE-3. Grant awards

are expected to be announced in November, and exploration activities will begin next spring if the grant proposal bears fruit.

IPEC is also hoping to work with the other communities of Chichagof Island to build roads and a communication/electric transmission grid to serve all communities. This idea is in its infant stages, but would solve many problems for the island residents, including access to healthcare facilities, an airstrip, better and more transportation options, and improved communication services.

Kake

IPEC is working with the Alaska Energy Authority, Southeast Conference, the City of Kake, the State DOT, and SEAPA to build a road/intertie project between Kake and Petersburg. The intertie would allow IPEC to buy hydro power from the SEAPA, which is the only existing power purchase vendor for Kake today. Although progress seems slow, we were able to secure grant funding from the State Renewable Energy Fund to conduct the environmental review and final design work. This project will eliminate approximately 196,042 gallons of fossil fuel annually.

Chilkat Valley/Klukwan

IPEC is working with legal counsel to pursue purchase of the 10 Mile Hydro Project. These negotiations are preliminary and confidential. This service area also has approximately $6.7 million of debt associated with underground services that were installed at the time of electrification.

IPEC has pursued debt relief in the past but has been unsuccessful. An advantage of relieving this debt is immediate rate reductions for all IPEC customers and relatively low cost compared to construction costs.

IPEC's Rates

According to the State's Power Cost Equalization Statistical Report, IPEC's average residential rate for the period 7/1/2007 – 6/30/2008 was $.5196 per kWh. According to IPEC's calendar year statistics for the year ended 12/31/2008 IPEC's average cost to produce and sell a kWh was $.5351. In 2008, IPEC's fuel component climbed to $.2618/kWh, up from $.2039 in 2007 and $.1998 in 2006. This number would have been higher, but we buy hydro power from two vendors for Chilkat Valley and Klukwan.

Last year was an especially tough year for IPEC's members, but the PCE program paid about $.3252/kWh up to 500 kWh for residential accounts, with a net cost per kWh of $.1944/kWh. The PCE program is a big help to residential customers, but does not help schools, businesses, or government entities. Only about 30% of IPEC kWh sales receive the PCE subsidy, with non-residential entities subject to the full rate. Business planning is especially difficult when fuel price volatility leads to high and increasing electric rates. This underscores the need to bring lower cost, stable-priced power to rural Southeast Alaska. Many residents and businesses have already left, leaving more of a rate burden on those who remain.

How can the State of Alaska help?

1) Fully fund and consider expanding the Power Cost Equalization program. While rural residents are extremely appreciative of the PCE program, it encourages extreme conservation and limits the utility's economies of scale. Indeed, many residents use only one light in the house during the dark winter months in order to stay under the 500 kWh limit – this is considered by some to be a quality of life issue.

   The PCE program does not help businesses, schools, churches, or other non-residential services. These types of customers exist within stringent budget constraints, and when fuel prices increase electric rates must also increase. In the case of a business, they must increase retail prices in order to cover increasing electric costs, which makes business planning very difficult, and rural costs of living less affordable. In the case of a school, student programs or staff positions must be cut in order to cover increasing electric costs. It is easy to see how increasing costs of diesel-generated electricity due to volatile fuel prices directly impact the lives and costs of living in rural areas dependent on diesel. The fuel price volatility of 2008 was a lesson in vulnerability for diesel-dependent communities and the utilities that serve them.
2) Provide a grant program for debt relief. IPEC sought debt relief for about 10 years from both the State and Federal appropriation. We were finally successful in receiving $2 million through a State appropriation in 2006, but it would have saved a lot of time and utility resources if a State grant program for debt relief was available.
3) Provide additional funding for the Renewable Energy Fund Grant program. Most rural construction projects are very expensive. The REF is a great program, but it currently has dollar caps on projects. Many projects will require additional grant funds above the caps to be economic.
4) In Southeast, fund power projects for the benefit of regional residents and businesses. Excess renewable energy can be used to attract new industry to create jobs for our residents. Southeast needs jobs to boost local economies. Alaskans first!
5) Support Sealaska's land bill currently before Congress. Many of our rural communities have suffered due to lost jobs in the timber industry, and many residents have moved to urban areas in search of employment. Fewer residents in a community make per unit electric costs higher due to negative economies of scale. It is our hope that the passing of Sealaska's land bill will revive Southeast's timber industry, thereby boosting local economies and bringing people back to rural communities.