

Rate increase needed to keep AVEC alive

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From the Alaska Advocate

JUNEAU—A substantial rate increase is needed to keep alive the electrical cooperative serving rural Alaska, consultants say. The recommendations to raise rates, now before the Alaska Public Utilities Commission (APUC), has provoked discussion about continuing state subsidies to the Alaska Village Electrification Cooperative (AVEC).

The struggling rural cooperative serving 48 rural Alaska villages needs an 18 percent rate increase to keep operating, and an increase of 44 percent is needed to correct many management and engineering problems found in a recent review of the cooperative.

The push for a substantial rate increase comes as the cooperative faces the loss of a long-term contract with rural schools furnishing more than 60 percent of its annual revenue. "The financial viability of AVEC...is threatened by the loss of this revenue," says the report.

Deputy Commissioner of Revenue Jim Edenso stated the case more bluntly, "The effect that you would have if you withdrew the Rural Education Attendance Area school district support from AVEC would be the total failure of AVEC."

The struggling cooperative was started more than a decade ago as part of a strong push for rural development. Organized largely by Native leaders and started by a \$5.2 million loan

from the federal Rural Electrification Administration, the cooperative was created to promote small industry in isolated villages.

The system has not sparked industrial growth but has fed an increasingly larger consumer appetite for the comforts electricity brings to homes and communities. It serves about 13,000 villagers in 48 towns, most located in western Alaska. According to a 1977 survey by the cooperative, more than half of the village homes now own all the following appliances: radio, television, coffee maker, freezer, electric drill, washing machine, toaster, cassette player and iron. And growing numbers are adding refrigerators, electric fryers and blow dryers to their list of home appliances.

With the increased dependency on electrical power have come numerous funding and policy questions that throw the future of the cooperative into doubt. All sides agree the basic question is simple enough: the presence of AVEC has created an appetite for electrical service in the Bush that urban residents have enjoyed for a long time. But can village dwellers afford it? And, if not is it in the public interest for the state to pick up the tab?

For its first decade, the cooperative enjoyed a hearty state subsidy from education dollars funneled to it through state schools located in AVEC-served villages. A long-term contract between the former Alaska

State Operated School System and AVEC guarantees the cooperative a flat fee of \$2,835 a month for each school, regardless of the school's actual electrical use.

AVEC now received 61 percent of its \$4.6 million annual revenues from the 66 village schools, but the contract expires this July and school administrators are resisting its renewal.

The flat monthly fee was recognized by all concerned as a subsidy, one insisted upon, in fact, by the Federal Rural Electrification Administration before it would loan funds to the young cooperative. The approach worked until the schools were decentralized in 1976 and 21 separate districts created from the old state-operated system.

Faced with paying electricity costs totally out of line with actual consumption, school administrators complained. Deputy Commissioner of Education Nat Cole explained, "Schools were 40 percent users, but they were paying 60 to 80 percent of the costs."

In addition, Cole said, most rural districts are not satisfied with the frequently unreliable service they receive.

The school administrators' discontent led to the formation of an interagency committee to review the contract situation last summer. The firms of Robert Retherford and Associates, and Arthur Young and Co. were commissioned by the committee to investigate village power plants management of the cooperative and the controversial rates.

Released at a Juneau meeting, the consultants' report reveals extensive problems in addition to the cooperative's rates. According to the report, an assessment of AVEC management shows "loss of control pervades every major department."

The report went on to list 39 recommendations for changes in the cooperative's management, from adding an assistant general manager to training village operators to documenting accounting procedures. At the heart of the management problem, the report indicated, was "understanding at the management level."

Loss of administrative control wasn't the only problem encountered by the consultants who visited 47 of the 48 villages served by the cooperative. They also found the village generating plants in bad condition, with safety code violations in 65 percent of the plants. Only one of the 44 plants was free of fire code defects.

"Oil leaks, leading to oil-soaked wood floors and oil-soaked cartons in several instances, are common in most of the power plants," consultants said. In addition, the engineering team noted poorly installed transformers with hazardous, unsafe conditions."

An additional \$440,000 annually would be needed to upgrade the administrative and engineering defects of the cooperative, the consultants estimated. They concluded that AVEC needs a rate increase of no less than 18 percent and preferably 44 percent to meet the cost of service and system upgrading.

Along with the recommended rate increase were suggested changes in rate structure. The package has been presented along with a rate increase request from AVEC itself, to the public utilities commission, which was expected to issue an order by the first of March.

If the utilities commission adopts the staff-recommended proposal, said commission member Carolyn Guess, "The schools will be paying on the basis of their consumption," instead of the flat \$2,835 fee now paid.

Deputy Commissioner Cole

estimated that schools consume "less than or close to 50 percent and they would be paying about that part of the load," if the change in rates and rate schedule goes as expected.

With the schools as a whole paying substantially less, and with an increase in revenues recommended, the question becomes who will pick up the tab. With only 155 small commercial users participating in the system, the brunt of the rate increase apparently will fall on the residential users, a change that has alarmed rural legislators. Sen. Frank Ferguson of Kotzebue expressed concern that "nobody's looked at whether it's going to hurt the communities is any way."

Utilities commission member Guess confirmed that residential rates will increase, but added that the actual amount will depend on what rate structure and fees the utilities commission finally adopts. The consultants' report gives the commission seven options for rates. In addition, AVEC presented a proposal of its own. If adopted, the cooperative's rate proposal would mean home electric bills would jump to an average of \$43.50 a month, an 11.5 percent increase for most home users. Consumers would pay 29 cents a kilowatt-hour, about 10 times that charged users served by Anchorage Municipal Light and Power.

Ferguson and other rural legislators object to the residential rate change because they believe it provides no incentive for electricity users to conserve electricity and creates disproportionate charges.

"I feel you shouldn't give a big user a discount," said Ferguson. "Nobody has any reason to watch how much they use if you do that."

The second charge—that rural consumers pay disproportionately more than urban users for electricity—is more complex.

The utilities commission, says Guess, is responsible for making or requiring reasonable rates based on the cost of providing the service. That this attitude results in consumers in some parts of the state paying more than those in other areas is not weighed by the utilities commission.