

COMMENTS TO THE ETIC OF RENEWABLE NORTHWEST PROJECT
AND NATURAL RESOURCES DEFENSE COUNCIL

The Renewable Northwest Project (RNP) and the Natural Resources Defense Council (NRDC) welcome the opportunity to comment on Montana's Universal System Benefits (USB) programs. RNP and NRDC have a long-standing interest and involvement with the USB program.¹ RNP and NRDC were actively engaged in the legislative process that led to the enactment of the USB provisions in 1997 and maintained a high level of involvement concerning USB issues in subsequent legislatures. RNP and NRDC have participated in both formal and informal Public Service Commission proceedings addressing USB. Finally, RNP and NRDC are members on both of NorthWestern Energy's (NWE) Advisory Committees and have been fully involved in that consensus-oriented process.

In these comments, RNP and NRDC wish to underscore and highlight the importance of USB funding for the "public purposes" of renewable energy and conservation. These are absolutely critical aspects of any "system benefits" program, providing clear advantages to all Montana electricity and natural gas customers. RNP and NRDC believe that renewable energy projects and conservation should continue to receive USB funding. As a secondary matter, RNP and NRDC believe that certain statutory revisions should be considered by this Committee and the 2005 legislature in order to create a more workable program. These subjects will be discussed in turn.

¹ NRDC and RNP are both not-for-profit 501(c)(3) organizations. RNP works to promote the development and use of appropriately sited, new renewable resources in the Pacific Northwest. RNP is co-sponsored by a coalition of 25 member organizations and businesses, including some that are based in Montana. NRDC is dedicated to the preservation of the earth's natural resources, including its air, land, and water resources that are affected by electric power production and delivery. NRDC has over 500,000 members, including more than 2,000 members in Montana. Over the years, one or both of the organizations have participated in numerous proceedings concerning Montana energy issues from the permitting of the Colstrip units, to electric industry restructuring, to default supply matters.

In considering the future of the USB program, it is worthwhile to reflect on its origins. Montana’s USB statutory provisions arose directly out of the “Comprehensive Review of the Northwest Energy System,” which was a joint undertaking by the Governors of Montana, Idaho, Washington, and Oregon to consider issues related to electricity supply and generation in the region in light of industry restructuring.² The Comprehensive Review recommended that each state dedicate a certain percentage of revenues from electricity sales to “ensure that all electric utilities operating within its borders are contributing to the development of conservation and renewable resources and providing weatherization and energy-efficiency services to low-income consumers.”³ With regard to investments in conservation and for renewable resources, the Review set forth two “clear goals,” first, to capture “all cost-effective electric efficiency opportunities” and second, “to continue to develop renewable resources in the region.”⁴

The 1997 Montana legislature adopted the recommendations of the Comprehensive Review with respect to investments in renewable resources and conservation by establishing a USB fund to pay for investments in these public purpose programs.⁵ It is worth observing that the actual amounts paid in USB charges by individual ratepayers are a very small percentage of one’s total bill. Based on January

² RNP was a member of the Comprehensive Review.

³ See <http://www.nwcouncil.org/library/1996/cr96-26.htm#E9E2> Note that the above quoted language does not include measures to assist low-income customers with their bills. The Comprehensive Review did discuss this, in another section of its report, recommending utilities maintain their historic level of assistance to such customers and that another fund – the Universal Electric Service Fund – be established to ensure continuation of this assistance.

⁴ *Id.*

⁵ Other public purposes funded through USB are “research and development related to energy and conservation” and “market transformation” programs that seek to make conservation measures available in a competitive market. These purposes also flowed from recommendations of the Comprehensive Review.

2004 rates, the average NWE residential electricity customer⁶ that uses 750 kwh pays \$59.50 per month. The total USB charge on that use is \$1.00 per month. The USB natural gas charge is considerably less than the USB electric charge.

Expenditures on renewable energy projects and conservation are as valid and necessary today as they were in 1997. In fact, there seems to be a political consensus in Montana on this point. Governor's Martz's efforts to promote conservation are well known.⁷ Likewise the Democratic Party states that: "[t]he cheapest source of "new" energy is conservation of that which comes from existing sources... ."⁸ Furthermore, both the Republican and Democratic Parties in Montana support the development of renewable energy. The Republican Party platform states: "[w]e strongly urge the development of Montana's abundant renewable energy resources and urge continuing research to develop alternative energy systems for both Montana and national energy needs."⁹ Likewise, the Democratic Party platform states: "[w]e encourage and affirm a move toward renewable energy sources in general, whether in direct solar applications

⁶ Only NWE's electric USB program is discussed in the text as it relates to funding renewable resource projects and conservation measures because it is the only entity that runs a program of any real size -- Montana-Dakota Utilities program as it relates to these programs is quite small in comparison -- and, as compared to the cooperative utilities and the large customers that have gone to choice, NWE actually runs a program whose explicit purpose is to promote the development of renewable resources and obtain conservation rather than take actions that are in the normal course of business. Regarding the cooperative utilities, in 2002, and there is no reason it would be any different in any other year, they spent very little on renewable resources (and a significant percentage of expenditures that they did attribute to renewable resources were in fact power purchases for which they claimed a credit pursuant to § 69-8-402(2)(b)) and they spent a very large sum on conservation, which was all (or virtually all) energy purchases under § 69-8-402(2)(b). The large customers, since they are able to self-direct, spend virtually all of their USB charge on conservation investments in their own facilities.

⁷ See Martz Executive Order, 03-01, Directing Energy Conservation In State Buildings, *cited in* PSC Order No. 6382d.

⁸ See <http://www.mtdemocrats.org/platform/2002natresplank.htm> (Montana Democratic Party web site)

⁹ See <http://www.gop.mcdd.net/modules.php?name=Content&pa=showpage&pid=10> (Republican Party web site)

such as photovoltaic and space and water heating, or in the solar derivatives such as biomass and wind.”¹⁰

Given the benefits that flow from instituting conservation measures and renewable energy projects, it is not surprising that there is a consensus on their desirability. Renewable resources provide one of a kind system and social benefits. Renewable resource development promotes our nation’s energy independence, results in stable costs since it is fuel-free and does not depend on widely fluctuating fossil fuel costs, produces an overall energy supply that is diverse and thus more robust, takes advantage of Montana’s abundance of solar and wind resources, creates local jobs, reduces the load on the transmission grid, and benefits the environment. Moreover, encouraging renewable resource development is the best hedge against a future of increasing fossil fuel costs or potential regulation of carbon dioxide emissions.

Expenditures on renewable resources as a result of Montana’s USB program have been highly effective and beneficial and have made Montana a leader in the Northwest in distributed generation. All told, there have been a total of 151 renewable resource projects with 447.15 kwh of capacity that have received some amount of USB funding.¹¹ 29 solar systems have been installed at Montana high schools and middle schools, from Darby to Dillion to Red Lodge, to Roundup. Each school that installs such a system must also be willing to incorporate a renewable energy curriculum so that students can learn about renewable energy. Accordingly, not only do these projects make energy bills lower for schools, and thus taxpayers, but they also provide a vehicle for learning, which is so vital if Montana is to develop the tools to compete in the new technology marketplace.

¹⁰ See <http://www.mtdemocrats.org/platform/2002natresplank.htm> (Montana Democratic Party web site)

¹¹ In order to make the USB renewable funds go farther, oftentimes co-funding is required.

There have been 7 fire stations that have installed solar systems, 6 within the last year. Such systems could provide power in case of a system failure. Renewable energy projects have also been used to assist the plight of the State's neediest citizens and the program is committed to continuing such efforts.

The reason to fund renewable resource development, as the Comprehensive Review recognized in 1996, is because of continued market barriers to these resources. Renewable resources have high up-front capital costs, although they have very low long-term costs due to their lack of fuel cost. In addition, markets do not do a good job at quantifying the values of renewable resources, such as risk mitigation, price stability, local economic development, resource diversity, and environmental benefits, that traditional forms of energy production do not offer. Consequently, USB funding for renewable resources will assist in overcoming these barriers by building a market, increasing the public's knowledge that such forms of electrical generation exist, and fostering technological advances. Doing this seeks to level the playing field so that renewable resources can more evenly compete with all other forms of generation.¹²

With regard to conservation, the benefits from pursuing conservation are many. Conservation is less expensive than purchasing new supply, lowers everyone's energy costs, insulates customers from rising fossil fuel prices, reduces the load on the transmission grid, allows societal dollars to be used more efficiently, and benefits the environment. According to NWE, investments in conservation funded by USB funds,

¹² Commercial scale wind development is becoming competitive with other forms of generation, as evidenced by the fact that NWE proposes to acquire 150 MW of wind power as part of its default supply portfolio. But, this exciting occurrence does not indicate that the time for USB funded renewable projects is past, rather it demonstrates that the USB sponsored development of renewable resources is doing exactly what it is supposed to, namely to increase awareness and build public, business, and governmental acceptance of renewable resources.

have resulted in an energy savings of approximately 2 aMW per year.¹³ These energy savings have directly redounded to the benefit of all of NWE's default supply customers.

The significant benefits from the acquisition of conservation measures make it essential that all available conservation be obtained. In its default supply order (Order No. 6382d), the PSC made it clear that acquiring conservation was a necessary component of any responsible energy supply portfolio. We are encouraged by the fact that NWE has recently committed to reintegrating energy efficiency measures into its resource procurement plan and procurement budget. To the extent that conservation previously funded by USB funds will, in the future, become part of supply, the dedication of these funds for conservation purposes will no longer be needed. They could be reallocated to another of the worthy purposes funded by USB. It will be advisable, however, to retain some amount of USB funding for conservation.¹⁴ For one thing, the choice customer that is too small to self-direct but who pays his USB charge should be entitled to receive conservation measures.

Consequently, we urge the ETIC to renew their support, as critical public purpose programs worthy of being funded with USB funds, for renewable resource development and conservation acquisition. As discussed, these purposes epitomize the phrase "universal system benefits." Renewable resource development should go forward at the same rate it has in the past. For funding for conservation acquisition, the situation is

¹³ This figure does not include any savings that may have been generated by large customers through energy improvements in their own facilities.

¹⁴ As the Committee is likely aware, determining precisely what amount of conservation should go into the portfolio and what amount should stay with USB is difficult. This is due to the fact that the criteria used to determine the proper amount of conservation to be acquired as supply for default customers is different than the criteria used to identify conservation measures funded by the USB charge. Also, it will be necessary to examine the several conservation programs funded through USB and determine, for each of those, which particular measure should be a supply acquisition for default supply customers and which should be a USB program action for NWE's distribution customers.

trickier since conservation is moving into NWE's portfolio. Consequently, some of the USB funds presently expended by NWE for conservation will be able to be reallocated.

We turn now to another topic, namely the structure and operation of the USB statute, as it exists today. There are more than a few questionable aspects of the statutory scheme that we believe warrant the Committee's consideration. These include: 1) the lack of a minimum funding level for low-income purposes for large customers, 2) the lower USB charge applied to large customers than to other utility customers, 3) the ability of cooperative utilities and the large customers to satisfy their USB obligation by purchasing power under the provisions of § 69-8-404(2)(b), 4) the lack of regulatory oversight and reporting requirements that make it difficult to know the basis for claimed expenditures, 5) the discrepancy between the electric USB charge and the natural gas USB charge such that electricity customers are paying for bill assistance for natural gas customers, and 6) the balkanized system of USB funded low-income assistance that appears to be neither efficient nor rational.

Thank you for the opportunity to comment and we hope that our comments are useful to the Committee.

Submitted by Charles Magraw on behalf of:

Renewable Northwest Project and Natural
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