

EXHIBIT

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DATE

1-19-05

HB

HB121

Main Identity

From: "Tom Starrs" <tomstarrs@b-e-f.org>
To: "Dave Ryan" <daver@ncat.org>
Cc: "Chuck Magraw" <c.magraw@bresnan.net>; "Ann Gravatt" <ann@mp.org>; "Debbie Smith" <debbiesmith@qwest.net>; "pjjudge" <pjudge@meic.org>
Sent: Tuesday, November 30, 2004 12:45 PM
Subject: Tom's Comments on Net Metering Issues

Dave --

Thanks for the prod. Got your original message, but it came at a bad time. I'm sure the others also were looking for me to reply first.

I pulled the questions from the original message, and am pasting them here, with my replies:

> Her are some of the concerns raised so far:

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- > 1) Safety - the co-ops WILL claim that having those "facilities" hooked in
- > to the grid will undermine their system control and safety, because they
- > would not be able to instantly de-energize them in an emergency shut-off
- > situation. They testify about the lack of a safe, lock-out, tag-out
- > procedure. They will testify about the risks and liability to thier system
- > due to power surges and the like, and they talk about how much money this
- > will cost them. These are, of course, just the beginning of the issues they
- > will raise about safety.

Tom's reply: This is a total red herring. The inverters used in small-scale solar and wind power systems are UL listed to IEEE standards that were designed and approved with the participation of utilities from across the country. Moreover, the necessary safety and power quality protection is an integral part of these systems -- the systems cannot operate without these protections in place. No additional utility-installed equipment is necessary for safety and power quality issues to be adequately addressed. Moreover, there are now thousands -- literally -- of such systems that have been operating, many of them for years, with virtually no safety or power quality problems. One cannot be adamant enough about the extent to which this is NOT a legitimate issue.

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- > 2) The idea of "forcing" the co-ops to purchase power that they "don't need"
- > or "can't use" or "Can't resell" will be a focal point. If, in any situation,
- > the co-ops are forced to "buy" power at a higher rate than they already have
- > contracted from elsewhere, then this bill is DOA.

Tom's reply: Net metering is not a purchase of power. It is a mechanism that simplifies the process by which customers produce their own electricity to offset electricity purchased from the utility. Even in the absence of net metering, customers are entitled by federal law to reduce their demand for utility power by partially producing their own -- with the effect of reducing their demand for utility power (e.g. spinning the meter more slowly). Moreover, existing federal law also requires utilities to take delivery of any excess power in the event that the customer actually produces more power than he/she demands at a particular moment. Net metering only comes into play with respect to the treatment of this excess power: existing federal law says the utility has the discretion to offer net metering or dual metering; the proposed state law would require net metering. The effect of net metering is to credit the customer for the excess power at the retail, rather than wholesale (or 'avoided cost') rates. For the typical residential system, the incremental cost of offering net metering (instead of dual metering) is in the range of a few dollars per month for the typical household. The utility's cost of administering a dual-metering program is almost certain to be substantially higher.

The bottom line: There are some revenue losses to the utility associated with offering net metering. These revenue losses are inconsequential, by any measure. If the utilities want to keep raising this issue, ask them to quantify (in dollar terms) the costs they are attributing to net metering. Keep asking them until you either get their figures (in which case you should send them to me for review) or they drop the issue because their own analysis has confirmed that the costs are so small it is a potential embarrassment for them to raise the issue.

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- > This is a direct result of the feelings against Qualified facilities and
- > mandated higher energy purchase costs that have occurred over the past few
- > decades. The co-ops will claim that this will happen under the change in
- > language. Unless this is absolutely refuted in clear terms, this bill has no
- > chance of passing; both sides will kill it.

Tom's reply: This is a question of scale. PURPA Qualifying Facilities are typically large, industrial-scale facilities such as cogeneration plants, large windfarms, geothermal plants, and so on. The average size of these facilities is 50 - 500 megawatts. Montana's net metering law limits system sizes to 50 kilowatts -- e.g. 1/1,000th to 1/10,000th the size of the typical QF -- and the average size of net metering systems actually installed is probably closer to 5 kilowatts. Comparing net metering facilities to PURPA QFs is an apples-and-oranges comparison. Again, focus on the economic consequences of the program -- both the costs (mostly in terms of modest revenue losses) and the benefits (mostly avoided metering and billing charges).

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- > 3) They will claim that they are not "equiped" to deal with a multitude of
- > small "attached" wind turbines and the like, because it may cause large
- > "fluctuations" to their system load which they are not able to handle.

Tom's reply: Ask the utilities to identify a distribution line that cannot accommodate even 500 kW worth of small solar or wind systems along its length. These lines routinely deal with much more substantial fluctuations on the demand side -- irrigation loads come to mind, among many others -- so the impact of these small-scale generating facilities is almost certainly inconsequential compared to the existing 'fluctuations'.

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- > 4) They will claim that current law already allows individuals to use an
- > alternative energy source and subsequently only pay for the power that they
- > actually use from the co-op.

Tom's reply: This appears to be an allusion to PURPA. Any utility that makes a reasoned, objective analysis will find that net metering (1) saves them money, compared to dual metering; and (2) makes their customers very happy. If these two reasons aren't compelling enough, I don't know what is.

Cheers,

Tom

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From: "Dave Ryan" <daver@ncat.org>
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Subject: RE: NorthWestern net metering contract

Hi Tom