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Bill No. HB 389

Statement of PPL Montana, LLC
Before the Energy and Telecommunications Committee
Of the Montana State Senate
Regarding House Bill 389
March 22, 2005

On behalf of PPL Montana, I would like to thank the Chairman and the Committee for offering the opportunity for comment on this legislation. In our view, this bill does several things that pose significant concerns for Montana ratepayers.

The legislation would expand the powers of a default supplier to include long-term investments, acquisition and leasing of power plants or other equipment for production of electricity. This bill also would expand the definition of electricity supply costs, and require that the Montana Public Service Commission ("Commission") pass the costs of any such long-term investments directly through to Montana consumers. Together these provisions would mean that the default supplier could build new power plants and pass the capital and carrying costs along to customers, even if cheaper options might be available. This legislation also mandates that the Commission follows a preapproval process designed to provide default suppliers with advance assurance that they will recover all costs of these long-term investments, including a return on their investment. This proposed preapproval process may very well limit the ability of the Commission to make prudence determinations in the future – that all the costs of the power plant or other investments and all the operating and fuel procurement decisions were reasonable, prudent and contributed to the best rates for Montana residents.

POSITION OF PPL MONTANA

PPL Montana opposes this legislation for a number of reasons. The proposed bill has adverse impacts on the citizens of our State. These changes would be permanent and long-lasting. For instance, if adopted, this legislation would:

- Cost customers money over time. Experience has shown, in electricity and in other enterprises that deregulated markets, over the long-term, produce consumer prices that are lower than would be the case under regulation. Airline fares and long distance phone rates are examples of deregulation resulting in lower prices for consumers.

- Place the risks and costs of building new generation on the checkbooks of Montanans like many of us in this room. Today, these risks are borne by the investors in competitive generation, not each and every hard-working customer of NorthWestern.

- Place the default supplier in the position of needing to develop significant expertise in building, owning and operating generation in Montana if it decides to pursue the expanded powers. These additional overhead costs are required because Montana Power Company transferred all such expertise to PPL Montana in 1999.

- Limit wholesale electric competition by discouraging development of generation outside of the regulated electric utility. What independent power developers are going to build a competitive plant if the default supplier can obtain risk-free and complete rate recovery of any generation investments that it makes?

- Restrict retail customer choice by raising the specter of exit fees or stranded costs that would be needed to compensate the default supplier as customers migrate away from default supply. While many large customers in our state are currently enjoying the economic benefits of customer choice, presumably those that have not chosen an alternate supplier would face additional costs if they choose a different supplier in the future, after the default supplier has incurred large capital costs. In fact, this legislation would likely sound a nearly permanent end to customer choice in the State.

- Remove the flexibility that the default supplier has to respond to changing market conditions by employing differing acquisition strategies. Once the utility builds or invests in its own generation, it will be saddled with using

that generation first, regardless of the cost of that generation or the market opportunities of more cost effective and flexible supply arrangements.

- Tie the hands of the Commission by mandating a preapproval process that would preclude after-the-fact need and prudence reviews of generation investment decisions. If passed, this bill may make it difficult for the Commission to influence the default supplier to economically build, own and operate plants without the ability to make after-the-fact need and prudence disallowances.

Instead of this legislation, PPL Montana believes there are a number of positive steps that the Legislature can and should consider in order to enhance Montana's energy future. For example:

- Support and encourage the investment in transmission infrastructure in Montana. In this regard, the establishment of a Montana Transmission Authority as proposed in House Bill 388 is a useful and practical step worthy of serious consideration. Such legislation could assist in generation development and utilization of the most cost-effective generation supplies for Montana residents.

- Support the formation of a regional transmission organization in the Pacific Northwest. Such an organization that would operate the transmission system in a fair and unbiased manner and control interconnection to the grid would greatly assist the development of additional generation supply in the region.

- Consider expanding the type and number of default suppliers in Montana. For example, if a city, county or other local government could become licensed as a default supplier to serve its citizens, this could offer ratepayers more choices and prove beneficial.

- Expand retail customer choice, which has been unnecessarily limited to the detriment of Montana consumers. This is especially true if the default supplier undertakes construction of new generation. Existing customers, whatever their energy consumption level, should be afforded the opportunity to choose an alternate supplier rather than facing potentially decades-long payback periods for generation facilities.

CONCLUSION

In conclusion, adopting House Bill 389 would not be in the interests of Montana consumers, competitive generation development in the state, or long-term economic development.