

STATE SENATE RECORDS
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BILL NO. SB 195

Statement of PPL Montana
Before the Energy Committee
Of the Montana State Senate
Regarding Senate Bill No. 195
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Mr. Chairman and members of the Committee:

My name is Mark Lambrecht, Manager of Regulatory Affairs for PPL Montana.

There is no urgent reason to adopt this type of modification to Montana's electricity restructuring laws. Senate Bill 195 is *not* going to lower costs for customers. But it will restrict or eliminate their choices. Moving too quickly to adopt a bill like this may result in unintended consequences that will be with us for a long, long time.

While SB 195 in its current form represents a significant improvement over other bills we have seen in the Montana House, PPL Montana still opposes SB 195. At its core, this bill proposes to discard competition and customer choice in favor of regulated cost-plus supply of electricity generation by a regulated utility. But eliminating competition and customer choice is not in the best interest of Montanans and Montana businesses. If choice is eliminated or restricted, Montanans may face higher bills for electricity under traditional cost of service regulation and will not see the innovation and efficiency that competitive markets will bring in the long run.

Please carefully consider four points before voting on this bill.

- First, there is substantial evidence – and much agreement among economists and policymakers – that properly functioning competitive markets yield greater benefits to consumers in terms of price, investment and innovation than do regulated alternatives, such as traditional cost-plus electricity regulation.

Properly structured competitive markets shift the risk of poor business decisions to shareholders and away from consumers. Montanans know that government regulation of industry can increase, not decrease, costs for consumers. A free marketplace for generation and allowing consumers to make their own choices will always produce better results for consumers in the long run than cost-plus regulation. And it will encourage the kind of environment where generators will want to build here in Montana.

- Second, neither PPL Montana nor its competition caused the price increases for electricity that have occurred since 1999. NorthWestern points to electricity price increases since 1999 as evidence that competition has not benefited consumers. That simply makes no sense. It is true that market prices for power have increased since PPL bought the Montana Power assets in 1999. Hydroelectric generation

availability and increased fuel prices that ultimately set market prices in the Pacific Northwest have largely caused these price increases. PPL Montana didn't cause price increases – market conditions did.

States that remained regulated throughout this period, such as Oklahoma and Colorado, have experienced increases in regulated rates of 47% and 43%, respectively, from 2000-2005. One of the main drivers of these increases has been dramatically higher fuel costs. Fuel costs are passed through directly to ratepayers under an integrated, regulated system, often through automatic fuel-adjustment clauses.

Competition is not to blame for recent increases in electricity prices. Quite the contrary, competition sends the right signals to keep operating costs as low as possible, resulting in lower prices in the long run than would occur under a regulated, cost-plus system.

- Third, this bill shifts risks to ratepayers that should be borne by competitive generation suppliers. SB 195 requires a utility to demonstrate that any generation plants it builds will be used and useful under a traditional ratemaking approach. That is far superior to the kind of “blank check” pre-approval that has been proposed in the Montana House. But SB 195 will still shift financing, performance and efficiency risks back to consumers who have to pay for the generation forever once it is allowed in rate base, whether the generation runs well or not, whether it is expensive to finance or not, and whether it is efficient or not.
- Finally, construction of new generation by NorthWestern Energy will not lower overall costs for customers. New generation is expensive and cost estimates of plants elsewhere in the country have been rising dramatically. Environmental costs as well as costs associated with adding the plant to the network can also be expensive. We saw this very clearly with the higher-than-anticipated costs of integrating the Judith Gap Wind project – a facility that NorthWestern told everyone was not going to cost nearly as much as it has.

Many other states have successfully adopted systems for default suppliers like NorthWestern to buy generation supply from the market in an open, transparent process visible to everyone. NorthWestern can build an integrated portfolio and purchase supply on a mix of long-term, medium-term and short-term bases. The suppliers would be bound by their bids and cannot add “extra costs” that may appear later. Over time, an open market with a transparent procurement process will produce the lowest-cost result for consumers. It will also stimulate the free marketplace to build additional generation supplies to meet this demand.

Because of the concerns I outlined, we urge you to pause, think carefully and trust your instincts before voting on this bill. There is no reason to make a rushed decision on this important matter. As we have seen in the past, business decisions made by regulated electric utilities in Montana have not always resulted in the best outcomes, and in some cases have even resulted in the failure of those companies.

It comes down to this: should Montana trust its energy future to competition and market forces with the opportunity for a fair price that benefits consumers, or should we shift risks back to consumers and cost them more in the long run?

Throwing out customer choice and electric competition in favor of traditional cost-plus regulation through SB195 is not the answer.

I encourage the Committee to give this bill a "do not pass" recommendation.

Again, thank you for the opportunity to comment on this bill.