

HB27 USB Hearing Notes
House Appropriations, February 3, 2009

Purpose of the bill: reauthorize the Universal System Benefits system charge.

The system has been in existence a decade. Part of dereg.
Choice by IOU user community to tax itself for community self-help.

Applies to Northwestern Energy and Montana Dakota Utilities

Does not apply to coops

Money is spent for these purposes:

- conservation
- low income assistance,
- market transformation
- small-scale renewable energy programs

NWE collects and disburses \$9.4M.

State handles approximately \$300,000 for MDU, which does not operate it's own program.

Why does the Appropriations Committee care? Because of that tiny sliver of \$300,000, which appears in a state special revenue account and is disbursed from there into MDU service territory.

HB27 does two things.

1. Eliminate the sunset, allowing the program to operate continuously. After a decade of success, USB has earned the right to come off of probation.
2. Statutorily require the Energy and Telecomm Interim Committee to exert bipartisan oversight, by reviewing USB every single biennium, and recommend changes to the system as necessary.

Cooperative Note

If any of Montana's power coops wants to run such a program, they may do so with no outside review, because they are self-governing. However, the communities served by NWE & MDU must get the permission of the entire legislature to engage in community self-help, because the utilities are governed by state law.

When this bill was heard on January 14, 2009, in the Federal Relations, Energy, and Telecomm Committee, the following persons and organizations were proponents.

There were no opponents.

John Fitzpatrick, representing Northwestern Energy

Gail Gutsche, Public Service Commission

Doug Hardy, Montana Electric Cooperatives Association

John Alke, Montana Dakota Utilities

Mary McCue and Gene Leuwer, Human Resources Development Council

Ed Eaton, AARP

Jim Nolan, Department of Health and Human Services

Lou Moore, Department of Environmental Quality

Linda Gryczan, Alternative Energy Research Organization

Bob Decker, The Policy Institute

Sarah Cobler, Montana Conservation Voters

NorthWesternTM Energy

Executive Summary

NorthWestern Energy is committed to administering Universal System Benefits (USB) programs and activities to efficiently deliver public purpose benefits to its Montana distribution customers to the fullest extent possible.

Electric customers in NorthWestern Energy's Montana distribution territory have funded \$78,037,479 of public purpose activities since the implementation of Universal System Benefits activities and programs in January of 1999. USB has resulted in increased funding for low income activities, conservation and market transformation programs have been sustained, and new renewable generation opportunities have been initiated for NorthWestern Energy's customers.

In 2007, a total of \$9,410,198 was collected from NorthWestern Energy's electric distribution customers.

A mix of low income, conservation, market transformation and renewable programs and activities similar to those provided in 2006, were continued in 2007. As reported in the past, some local conservation and market transformation activities previously funded with USB dollars are now, with direction from the Montana Public Service Commission (MPSC), funded as part of Northwestern Energy's electric supply portfolio as demand side management (DSM) programs or activities.

Funds have been allocated to the categories consistent with MPSC Interim Order 6679b to meet low income program obligations, including the natural gas USB revenue shortfall related to the NWE natural gas low income discount. As a result, \$4,170,445, or 44% of the 2007 electric USB revenues were allocated to low-income. After the low-income obligations had been met, the remaining funds were committed to renewable activities, and local conservation and market transformation activities.

Large customers self-directed 3% of their 2007 electric USB funds to low-income activities, and Northwestern Energy reallocated \$37,305 of unspent large

**NorthWestern Energy
Universal System Benefits Activities
2007 Annual Report**

customer funds to low-income, bringing the total of 2007 electric USB funds directed to low-income to \$4,314,948.

NorthWestern Energy implements its USB programs and activities consistent with the requirements of legislation for USB, the Department of Revenue (DOR) administrative rules for USB Programs, and tariffs and orders of the PSC. NorthWestern Energy's allocation decisions for 2007 are consistent with well established past practices.

The activities for 2007 are summarized and the qualifying expenditures and credits claimed by NorthWestern Energy are documented with this report. *No funds are being released to the Statewide USB fund(s).* Large Customers that self-direct their funds are required to separately report those activities. To the extent that a Large Customer has informed NorthWestern Energy that they have directed funds to low income activities, the totals have been reported. Unspent Large Customer dollars have been reallocated to low income by the utility consistent with PSC direction and are noted in this report.

This report includes brief highlights of activity in each category, a summary of the allocations of 2007 electric USB funds by category and activity, and a summary of the energy savings and resources resulting from the 2007 allocations. The report also includes updates on previous years' activities, and a summary by public purpose category of electric USB funding from 1999-2007.

In 2007, an independent evaluation of NorthWestern Energy's USB and DSM programs was completed. Of current USB activities, the evaluation included a review of the Free Weatherization Program; and evaluations of the E+ Audits for the Home and E+ Energy Appraisal for Small Businesses, as well as the E+ Business Partners Irrigation Program. The evaluation concluded that these programs are well-run, follow many best practices, and should be continued. The complete DSM evaluation was included in NorthWestern Energy's Supply Portfolio filing.

MEMORANDUM

FROM: Bill Thomas, Manager--Regulatory Support Services

DATE: March 2008

RE: 2007 Universal System Benefits Report to the Montana Department of Revenue

Enclosed with this letter is the 2007 Electric Universal System Benefits (USB) report for NorthWestern Energy. Copies of this report are also being provided to the Montana Department of Revenue, the Montana Public Service Commission (MPSC), and members of the Energy and Telecommunications Interim Committee of the Montana Legislature. Please share this report with others in your area who may have interest in it. Call if additional copies are needed.

The report documents the revenues collected by NorthWestern Energy through the USB Charge; summarizes the qualifying expenditures made by the utility in the implementation of internal programs and activities, and the credits claimed; and documents the collection and reimbursement of the USB charge from NorthWestern Energy's Large Customers.

A total of \$9,410,198 in electric USB revenues was collected from NorthWestern Energy's electric distribution customers in 2007.

Approximately 44% of the 2007 USB funds, or \$4,170,445 was directed to low income activities by NorthWestern Energy. Large Customers self-directed activities accounted for 33% of the total electric USB revenues collected with \$107,197 self-directed to low income activities and \$2,290,971 self-directed to energy reduction activities. Allocations by NorthWestern Energy to the other public purpose categories are as follows: 14% or \$1,315,911 to local conservation, 1% or \$77,023 to market transformation, and, 8% or \$783,507 to renewable energy and research and development.

Included with the 2007 report are updates for the 2005 and 2006 reports.

No USB funds collected from NorthWestern Energy customers are being released to Statewide USB funds.

Separate of this report to the DOR, NorthWestern Energy reports its natural gas USB activities to the MPSC. Natural Gas funds are directed toward residential energy audits and the Low Income natural gas discount and Free Weatherization Program.

In addition to the conservation, low income, and renewable activities funded with USB dollars, NorthWestern Energy funds cost-effective demand side management (DSM) activities as part of the electric and natural gas default supply portfolios. A complete listing of USB and DSM programs is available upon request.

If you have questions, please contact our USB staff at 406-497-2491.