Senate Energy & Telecomm.Comm.
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Bill No. SB 312

MONTANA LEGISLATIVE AUDIT DIVISION

PERFORMANCE AUDIT
Universal System Benefits Program
Public Service Commission
Department of Revenue

MAY 2014 | 13P-06 | REPORT SUMMARY

Between 2007 and 2012, Montana's natural gas and electric utility customers paid $149.6 million to utility providers to support the Universal System Benefits program. Oversight by the Department of Revenue and the Public Service Commission could be strengthened to improve statutory compliance by utilities and large customers. Legislative review of statutes could improve effectiveness of large customer Universal System Benefits expenditures.

Context

In 1997, the legislature deregulated Montana's electric and natural gas industries. However, there were projects being conducted by utilities at the time that were believed to have benefits for all Montanans. In order to continue funding for these projects after deregulation, the legislature created the Universal System Benefits (USB) program. The funding mechanism for USB projects is a surcharge added to each utility customer's bill. The surcharge is collected by each utility and used to fund the utility's internal USB program. The legislature assigned oversight responsibilities for these programs to both the Public Service Commission (PSC) and the Department of Revenue (DOR).

The legislature established different USB programs for natural gas and electric utilities, each with its own funding formula and differences in how the funds can be used. Under electric USB statutes, utility customers can be identified as a "large customer" and have their USB surcharges reimbursed for internal projects that meet the intent of USB programs. Reimbursement for USB project expenses are provided by their utility. In exchange for being able to participate in internal USB programs, large customers are required to report their USB activities to DOR. Reporting these internal USB activities is the first step in a process DOR manages to allow the public to review submitted reports and challenge large customer USB expenditures. However, unless the public challenges a USB expenditure, statutes limit DOR's ability to review those same expenditures.

Statutes assign PSC oversight responsibilities for all functions of natural gas USB programs, to include approving the utility's internal USB program, approving the surcharge the utility will assess its customers, and receiving reports for USB activities. For electric USB programs, PSC is responsible for approving the utility's USB program and the surcharges assessed to customers. PSC also reviews periodic evaluations of electric utility's USB programs.

Results

Audit work found PSC has not required all regulated utilities to implement USB statutes requiring USB surcharges be assessed on all utility customers. In addition, we also identified instances where a regulated utility was allowed to fund activities not authorized by USB statutes. We make recommendations

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to the PSC to require all regulated utilities assess USB surcharges to their customers. We also recommend the PSC ensure USB surcharges are only used for purposes identified in statute and provide better documentation of decisions made regarding how those surcharges are used by utilities.

Audit analysis identified large customers who are not in compliance with statutes requiring them to report USB activities to DOR. We also found there are limitations that make it difficult for DOR to identify noncompliant large customers that did not file required reports. Statutes and administrative rules make public challenges of large customer USB expenditures difficult. DOR has only had to respond to one public challenge since the USB program was implemented. Our review of large customer records found a number of instances where it appears the expenditure does not meet USB program guidelines. We make recommendations to DOR to improve identification of large customers that have not filed their required annual USB expenditure reports.

Identifying large customers who are not in compliance with USB reporting statutes and reviewing those USB expenditures is difficult because of limitations imposed by statutes implemented during deregulation. We make recommendations to the legislature to determine if large customer USB expenditures are meeting the public purpose benefits expected of other USB funded programs.

Recommendation Concurrence	
Concur	2
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (13P-06) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**
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