

MINUTES
of the
LEGISLATIVE CONSUMER COMMITTEE

September 8, 2010

State Capitol, Room 317, Helena, MT

COMMITTEE MEMBERS PRESENT

Senator Terry Murphy, Chairman
Representative Pat Noonan, Vice Chairman
Senator Joe Tropila
Representative Tom Berry

STAFF PRESENT

Robert A. Nelson, Consumer Counsel
Mandi Shulund Hinman, Secretary
Mary Wright, Attorney
Paul Schulz, Rate Analyst

VISITORS PRESENT

Geoff Feiss, Montana Telecommunications Association
Don Ryan, PSC Candidate from Great Falls
Phil Maxwell, 3 Rivers Telephone Cooperative
Bonnie Lorang, Montana Independent Telecommunications Systems
Dave Gibson, Qwest
John Fitzpatrick, NorthWestern Energy

CALL TO ORDER

The meeting was called to order at 1:30 p.m. by Senator Murphy.

MINUTES OF THE PREVIOUS MEETING

MOTION: Representative Noonan moved approval of the May 27, 2010 meeting minutes.

VOTE: The motion passed unanimously.

Geoff Feiss, General Manager of the Montana Telecommunications Association (MTA)

Mr. Feiss thanked the Committee for inviting him back to discuss The National Broadband Plan. As part of The Recovery Act of 2009, the Federal Communications Commission (FCC) was required to produce a document to serve as a guideline for regulatory and policy procedures, and the National Broadband Plan is the result of that requirement. The National Broadband Plan sets forth a number of aggressive goals and lists a number of national purposes for deploying and adopting broadband, including healthcare, education and public safety, to help promote economic development and make America more efficient in using communication technology. Universal Service is a major part of the National Broadband Plan and is a vital program for rural telecommunication providers and consumers in Montana. The Universal Service statute states that all Americans shall have access to affordable telecommunication and advanced services at comparable rates and quality. On 4/21/2010 rulemaking was launched on reforming the Universal Service Program. Over 100 parties filed comments; the 5 National Associations representing rural telecommunication providers filed joint comments. Many state associations and parties in Montana share the same views in that certain changes could be made to the Universal Service Program but there are concerns with the proposed changes in the National Broadband Plan, one being eliminating the current funding mechanism. The current funding mechanism is the cost base rate of return funding mechanism that has proven successful in providing investment support for rural, high-cost telecommunication companies, which would be replaced with a proxy model that serves a purpose for larger companies using incentive regulation for determining the

level of support that should go to the companies. The overall amount of money in the Universal Service Fund would also be frozen and in some cases the application of Universal Service would expand high-cost support to include areas that have not been invested in to the level that there is sufficient broadband capability, resulting in less money available to the companies that have relied on Universal Service support to invest in their rural exchanges and to maintain the current investment. Revenues also come from Intercarrier Compensation, which is a charge to other companies to interconnect with existing networks. Universal Service and the Intercarrier Compensation charges make up roughly 80% of revenues and the remainder comes from customers. With the National Broadband Plan, 90% of the Universal Service funds would be eliminated and would need to be made up by the customers and with that, many of the companies in Montana would not survive with such a substantial reduction in funding. The Montana Public Service Commission (Commission) was one of many parties to file comments on the Universal Service reform proposal, saying that the rulemaking will not lead to traditional broadband deployment but instead will imperil existing networks that already are providing broadband services to their customers. Commission comments also said that the traditional cost based support received from rate of return has been successful and cannot be reduced or eliminated without jeopardizing ongoing operation or maintenance of current services and if reduced or eliminated, the reformed universal service proposals will not meet statutory requirements for comparability. Also in the National Broadband Plan, the FCC suggests that telecommunication providers raise rates while reducing intercarrier compensation charges. This would lead to increased customer costs of between \$66 and \$300 per month. Bonnie Lorang, General Manager of Montana Independent Telecommunications Systems (MITS) said that she concurs with Geoff's comments and handed out copies of response comments of MITS and of the Commission that were submitted to the FCC. Bonnie added that every telecommunications provider in Montana with the exception of Qwest is a rural provider and the Universal Service Funds support telecommunications networks that consist of voice, data, broadband and video applications and it is critical to these providers to continue to have Universal Service support to help maintain and extend

the networks needed. Representative Noonan asked who the proponents of this plan would be, if any. Mr. Feiss said that he would bet the Chairman of the FCC and perhaps a few members of Congress would testify in favor of the National Broadband Plan. Representative Noonan asked if this was a grant process. Mr. Feiss said that Universal Service program is a statutory program in the Telecommunications Act that requires that all Americans have access to telecommunications services that are comparable and affordable. There is a grant program under the Broadband Stimulus Program, which is \$7 billion that the United States Departments of Commerce and Agriculture were given by the Recovery Act of 2009, and some of that \$7 billion has gone to projects in Montana. Bob added that the Universal Service fund mechanisms have been somewhat controversial for quite some time because many states are on the receiving end and some states are on the paying end so to some states it may appear as costing their state to benefit other states. Representative Berry asked Mr. Feiss what the expiration date is on the broadband stimulus plan. Mr. Feiss responded by saying that the Recovery Act of 2009 requires all of the \$7 billion for the Broadband Stimulus Program be spent by 9/30/2010. Senator Murphy asked Mr. Feiss what the short and long term affects will be for rural utility service. Mr. Feiss said that hopefully the future will hold a long term role because they have a 60 year history and have loaned millions of dollars to telecommunications operations in Montana. Senator Murphy asked Bob to comment on the proper role of the Committee in terms of responding in this matter. Bob said he felt it would be appropriate to send a letter commenting on the concerns of comparability and affordability of rates for rural service and sustainability of the broadband deployment of rural companies in Montana. Senator Murphy said he felt the proper procedure would be a motion to ask Bob to prepare a letter for Committee signature.

MOTION: Representative Berry moved approval to have Bob prepare a letter for Committee signatures.

VOTE: The motion passed unanimously.

**BOB NELSON PROVIDED THE FOLLOWING HIGHLIGHTS OF CASES
CURRENTLY PENDING:**

NorthWestern Energy (NWE)

**D2009.9.129 Application for Electric and Natural Gas Delivery Rate Increase
and ACOS and Rate Design Changes-**

NWE requested an overall 2% increase on gas and a 7% increase overall on electric, slightly more for residential customers due to cost allocation and rate design. MCC filed testimony on 6/3/2010. Al Clark filed revenue requirement recommendations of almost a \$2 million decrease for electric and a \$3.1 million decrease for gas. These figures were based on several revenue requirement adjustments but the primary drivers were the cost of capital recommendations of Dr. John Wilson who recommended a 9.5% return on equity compared to NWE's requested 10.9% and a 40/60 capital structure, which had a substantial impact on NWE's revenue requirement increase. NWE presented both a marginal cost study and an embedded cost study for cost allocation. The marginal cost study is required by the Commission and the embedded cost study is NWE's preferred method. Dr. Wilson adjusted the marginal cost study which reduced marginal residential customer costs to \$3.28 as opposed to NWE's \$20.00 per month. Dr. Wilson recommended a monthly service charge for residential customers of \$3.50 and not changing any of the cost allocations so that there would be, in effect, equal percentage allocation of any rate change. Dr. Wilson recommended that the Commission not approve the inverted block rate structure because the tail block would be priced higher under the NWE's proposal and would not match actual marginal energy prices, causing the inverted block structure to be economically inefficient. George Donkin submitted testimony on the gas allocated cost of service study and found some flaws with how NWE prepared their cost study. Mr. Donkin generally recommend allocating more cost on the basis of energy, throughput, as opposed to just demand, and those changes resulted in the calculated residential class rate of return of about 9.6% versus 8.3% overall. Mr. Donkin recommended that any increases go to non-Core classes but that the class increases be capped at

10%, keeping in mind that Mr. Clark also recommended decreases to begin with. With respect to gas, Mr. Donkin also recommended rejecting the inverted block rate design. NRDC/HRC also filed testimony recommending many changes to the allocated cost of service study similar to what Dr. Wilson and Mr. Donkin recommended but did recommend approval of the inverted block rate structure and proposed some modifications to decrease the size of the initial block which exposes more consumption to the higher tail block rate. NRDC/HRC also recommended that NWE's existing lost revenue adjustment mechanism be replaced with a decoupling proposal. Bob explained that decoupling is a broad concept, rather than a specific methodology and is intended to break the link between the utilities' commodities throughput and revenues so that revenue recovery does not depend anymore on how much gas or electricity is being sold. Decoupling has been debated for about 20 years and in the early 1990's there was a decoupling pilot program in Montana but Montana Power Company essentially abandoned it. Other states experimented with decoupling pilots also in the early 1990's and these were abandoned as well but decoupling has become popular again and has been implemented by many states. The National Association of State Utility Consumer Advocates, an organization that MCC belongs to, has adopted a resolution expressing concerns about decoupling. There are several forms of decoupling, a few being a straight fixed variable rate design and the lost revenue adjustment mechanism, which NWE currently has in place for both gas and electric and that MDU has in place for gas. In this case NRDC/HRC is proposing a per-customer fixed revenue decoupling. MCC filed reply testimony of Dr. Wilson on 7/15/2010. Dr. Wilson noted that the fixed revenue proposal would weaken productivity incentives that are embedded in traditional rate making by unlinking revenues from throughput. Dr. Wilson also noted that decoupling abandons the fundamental matching principal of ratemaking to a pretty large extent by focusing on only one factor that affects profitability and said since the lost revenue adjustment mechanism has been in place, NWE has already engaged in extensive DSM efforts. A hearing is scheduled to begin on 9/20/2010.

D2010.5.50 NWE Annual Electric Tracker-These annual trackers are filed in order to true-up the monthly trackers. NWE projected an increase of close to \$42.00 per year, about 5% on the total bill per customer. We have intervened in this case and are currently working on preparing testimony.

D2010.7.74 NWE Monthly Electric Trackers - The August Electric Tracker filed 7/15/2010 resulted in a residential rate decrease to \$.054742/Kwh; The September Electric Tracker filed 8/17/2010 resulted in a residential rate decrease to \$.053717/Kwh.

N2010.6.57 NWE 2009 Electric Default Supply Resource Planning and Procurement Plan-These are documents required by Commission rule to be filed every two years, basically to provide information on resource planning and the status of what NWE will be doing to meet resource procurement obligations. This planning process was instituted several years ago partly to reduce overall risks for the utility during the planning process and to get some indication of any concerns there might be with the procurement plan. A 20 year planning horizon and a 3 year action plan are included in the filings, which are put together by examining multiple portfolios with different combinations of potential resources. Also, as a part of this plan, a detailed study is done of how much energy efficiency demand side management is available. In this plan, NWE noted that over the next few years they plan on evaluating ratebasing a 200-300 megawatt gas generation plant for online service after June 2014 and that they plan to increase the annual DSM target from 5 to 6 average megawatts and intend to add 50-75 megawatts of wind. While NWE studies the economic and operational impacts of doing that, they expressed concern with those impacts based on experience to date with wind generation. Comments on this filing are due 10/1/2010.

D2010.2.18 Kenfield Wind Park I, LLC Petition to Set Terms and Conditions for Existing Qualifying Small Power Production Facility- MCC filed the testimony of Larry Nordell on 3/26/2010. Larry suggested that this project could be viewed as one

20 megawatt project rather than two 10 megawatt projects and the significance of that would be the project not qualifying for a QF-1 rate but instead would have to be bid into a procurement process for NWE. Larry also expressed concern about establishing integration costs on a long term basis due to fluctuation. The Commission issued Final Order 7086b on 6/23/2010 concluding that Kenfield is a single 20 megawatt project that would have to be included in NWE's procurement process. Kenfield filed a Motion for Reconsideration of Final Order 7086b on 7/7/2010. It is understood that the Commission did not act on Kenfield's Motion for Reconsideration therefore is denied under operation of Commission rule.

D2008.12.146 Application for Approval of Avoided Cost Tariff for NWE

Qualifying Facilities- This case applies to facilities that are under 10 megawatts in size and the Commission issued Final Order 6973d laying out the three rate options, which are: Option 1 - a fixed price tariff based on projected Colstrip 4 (C4) related revenue requirements, Option 2 – based on market rates, and Option 3 – reflects costs of acquiring alternative wind resources. MCC filed a Motion for Reconsideration on 6/2/2010 to argue that rates in Option 3 should be reconsidered because the 2007 plan was stale and an inadequate basis for setting rates for 25 year contracts, and that having an option only available to wind is not supportable because it has not been established that only wind would be acquired for the Renewable Portfolio Standards. The Commission issued Order 6973e on 7/9/2010 denying that and other Motions for Reconsideration that had been filed.

Cause No. DV-10-828A, 18th Judicial District MSIRG v. MPSC, et. al., Complaint and Petition for Judicial Review-

Regarding the previous case, Montana Small Independent Renewable Generators, the industry groups that represented some of the small QF's, has filed a Petition for Judicial Review based on the denial of their Motion for Reconsideration in Order 6973e. MSIRG's complaint is regarding the Commission's decision to base avoided costs on information other than what was in the 2007 Electric Supply Resource Procurement Plan because some C4 information had been used. MSIRG also complained about the capacity factor that the

Commission used for setting the wind QF rates. The Commission filed an answer to this complaint and MCC may intervene in this case.

D2010.7.77 Application for Approval of Revised QF-1 Rates- This is the 2010 application for revised QF-1 rates filed on 7/30/2010. NWE used weighted average marginal resource costs from three preferred portfolios in the resource procurement plan filing, resulting in a rate of \$72.65/Mwh which is a fairly significant increase from the last QF-1 rate, and did propose an Option 3 wind rate of \$68.42 Mwh. MCC has intervened in this docket.

D2010.2.14 Complaint of Dr. Paul Williamson, et al. Petition to Pay for LED Lights by Eliminating Overcharge-This is the complaint of Dr. Williamson and others on the alleged overcharge for street lighting in Billings and other communities that the Commission earlier dismissed for lack of standing. The Complainants filed an amended complaint on 5/30/2010 asking the Commission to again review their complaint. The Commission issued Order 7084d on 7/27/2010 making some minor modifications in their language but again denied the motion based on their lack of standing, saying that the Complainants were not directly affected which is a requirement for standing under statutes that apply to the Commission.

Williamson, et al. v. MPSC and NWE, Petition for Review of 7084a and 7084d and Complaint for Declaratory Judgment, Action to Compel Performance and Request for Temporary Rate Cause No. DV-10-1450, 13th Judicial District Reduction-The Complainants in the previous case have filed a Petition for Judicial Review in Billings that has recently been served on the Commission.

D2010.4.44 Annual Propane Supply Tracking Filing-MCC has intervened in this docket and the increase request here is roughly 30%. Representative Berry asked if a 30% increase was substantial especially since energy prices have not changed much recently. Bob said that there is a catch-up situation going here because NWE had neglected this system and had not increased rates for quite some time. Paul

added that this situation is unique because rather than being in a monthly tracker setting, an annual bid process is done for propane so the increase is due to a large change in bids received the previous year.

D2010.5.49 Annual Gas Cost Tracker-This is the annual gas cost tracker for the period of 7/2009-6/2010 that was filed on 5/28/2010. The projected natural gas cost for 2010-2011 is \$5.69/dkt which is close to where it was last year. Interim Order 7089 was issued on 6/29/2010 approving this request on an interim basis and MCC has intervened in this case.

D2009.7.99 Monthly Gas Trackers- The August Gas Tracker filed 7/15/2010 resulted in a residential rate decrease from \$9.02 to \$8.74; The September Gas Tracker filed 8/16/2010 resulted in a residential rate decrease from \$8.74 to \$8.54.

D2010.3.27-Natural Gas 2010 Annual USB Charge Filing-This case is the annual USB charge tracker filing. NWE is proposing an increase of 2 cents per dekatherm for the Universal Systems Benefits charge. MCC has intervened in this docket.

Montana-Dakota Utilities (MDU)

D2009.4.56- Electric Cost of Service and Rate Design Filing-This case relates to a case that was settled through a stipulation a few years ago between MCC and MDU. As a part of Order 6846f approving that stipulation, MDU was required to file cost of service and rate design testimony because the Commission felt these issues had not been reviewed for quite some time. The Commission asked that MDU address several issues including time of use metering and decoupling. MCC has intervened in this case.

D2010.8.82 General Electric Rate Application-On 8/11/2010 MDU filed a General Electric Rate Application requesting a \$5.5 million increase, a 13% increase overall and a 14.5% for residential customers. The primary reason MDU stated for this

increase is the expansion of wind generation and substation and transmission investment and as a result of these items, MDU's rate base has increased by roughly \$58 million dollars. MDU also requested recovery of deferred costs associated with cancelled plants, the largest being Big Stone. MDU also has a depreciation expense increase included in this case and has requested implementation of two new tracker mechanisms. MCC will intervene in this case.

D2009.7.102 2009 Avoided Cost Updates Power Purchase Time Differential

Rate 93- MDU files annual updates to their QF rates and filed this update on 7/24/2010. MCC did not file testimony and the Commission issued Final Order 7044a on 6/11/2010 approving the requested tariff changes.

D2010.6.66 Monthly Electric Trackers- The August Electric Tracker filed 7/21/2010 resulted in an increase of \$.75/Dkt; The September Electric Tracker filed 8/21/2010 resulted in an increase of \$.265/Dkt.

D2009.9.121 Monthly Gas Trackers- The August Gas Tracker filed 7/9/2010 resulted in an increase of \$.48/Dkt; The September Electric Tracker filed 8/9/2010 resulted in a decrease of \$.28/Dkt.

Energy West Montana (EWM)

D2010.9.90 General Rate Increase-This case was filed on 9/2/2010 and was required as a result of a settlement in EWM's Holding Company application docket. The settlement required EWM to file a rate case because there was concern that costs may change as the Holding Company structure changed. A total annual increase of \$362,000 was requested and EWM also requested implementing a straight fixed variable rate design. EWM is allocating 75% of the proposed increase to residential customers and 25% of the increase to small commercial customers based on an embedded cost study. This filing covers Great Falls, Cascade, and West Yellowstone, West Yellowstone being a propane system. Bob said that

Cascade was a propane system and a year ago EWM extended a transmission line to Cascade and converted Cascade to natural gas but kept rates and accounting separate but now are proposing to merge Great Falls and Cascade and average all costs of both distribution systems. Senator Tropila mentioned that he once worked for Great Falls Gas and he thanked former Senator Ryan and current PSC Candidate for coming to the meeting.

D2010.6.69 Annual Gas Cost Tracker-This annual gas cost tracker would result in a modest decrease due to over recovery being flowed back. MCC intervened in this case and a hearing is scheduled for 1/12/2011.

D2010.3.34 Monthly Gas Trackers- The August Gas Tracker filed 7/26/2010 resulted in a residential rate decrease to \$6.29/Mcf; The September Gas Tracker filed 8/24/2010 resulted in a residential rate decrease to \$5.76/Mcf;

D2009.6.90 Application to Approve Reconciliation of USB Account and Continue USB Charge- This docket relates to EWM's USB program and EWM is proposing to spend some of the USB money on the noise mitigation project at the Great Falls airport. MCC had not opposed that proposal but did request a full analysis be done on this project before it is carried further. The Commission issued Final Order 7063a on 7/15/2010 approving this application and stating that EWM is to file a report on the program before additional expenditures are requested. Senator Tropila mentioned that he is a member of the Great Falls Airport Authority Board.

D2010.6.70 Application for Approval of USB Account and Reduction of USB Charge-This case is EWM's USB application for this year and they are proposing a small decrease in the surcharge due to an over-collection that will be flowed back. At this point MCC will not be filing testimony.

Havre Pipeline Company (HPC)

D2010.7.78 Gas Cost Tracker for Farmstead Service- HPC provides service to some farmstead connections and is reducing gas costs from \$4.11/Mcf to \$3.16/Mcf as a result of dropping gas prices. Because of the limited nature of the HPC system the non gas component is only .19/Mcf. This application is required by a stipulation that was entered into many years ago.

Miller Oil

D2010.2.15 Annual Gas True-Up-Miller Oil is a propane system in Culbertson and this is the annual true-up filing. MCC intervened but did not file testimony. The Commission issued Default Order 7087 on 6/15/2010 approving the requested adjustment.

Big Mountain Water (BMW)

D2010.1.9 Application to Increase Water Rates-This request is for a 100% increase of \$131,742. Paul filed testimony on 7/1/2010 recommending an \$84,000 increase based on several adjustments he made, resulting in total revenues of \$216,845. MCC entered into a stipulation with BMW agreeing on a revenue requirement of \$193,000 until 10/1/2010 and \$226,695 after that, which is higher than what Paul recommended but is basically built around Paul's recommendation and phases in the impact over a few years. A hearing was held on 8/25/2010.

HLH, LLC

D2008.10.123 Water Rate Increase-HLH requested a \$441,702 increase and the Commission issued Interim Order 6972a on 4/17/2010 granting a \$283,008 interim increase. MCC entered into a stipulation with HLH for a \$337,000 increase. The Commission issued Interim Order 6972b approving the stipulated amount on an

interim basis. A hearing was held on 3/11/2010 and on 8/16/2010 the Commission issued Interim Order 6972c denying the stipulation stating they did not have enough information to make an informed decision and said they would be restarting the procedural schedule. Also in Order 6972c the Commission noted that they may have to implement an increase greater than what was in the stipulation once the new process is complete. The Commission said they would allow HLH to file an amended application using a complete 2008, 2009 or 2010 test year. HLH filed a Motion for Reconsideration of Order 6972c saying that the Commission cannot decline to decide a case and that the Commission is required to make a decision within 90 days of the hearing. MCC has submitted support for HLH's Motion for Reconsideration.

Mountain Water Company (MWC)

D2010.4.41 Application to Increase Rates- This application was filed on 4/16/2010. MCC intervened and conducted discovery in this case but the procedural schedule is currently suspended due to some protective order issues.

D2010.6.59- Application for Distribution System Improvement Charge Tariff-

This case is MWC's application for a distribution system improvement charge tariff, which in effect is a tracker of distribution improvement expenditures. This application was filed 5/27/2010. The Commission appeared to consolidate this application with the prior case but that ended up slowing down the process of the prior case, so MWC withdrew this application.

North Star Planned Unit Development (NSPUD)

D2010.6.60-Initial Rate Application for Water and Sewer- NSPUD is a water and sewer utility in the Helena area and this is their initial rate filing that MCC will be reviewing.

Municipal Water

City of Laurel-Water Rate Complaint-Municipal water utilities are not regulated by the Commission but MCC has some obligation to represent consumer interests before those municipal entities. In this case, the City of Laurel adopted rate changes for the water utility but did not provide notice of that to MCC, which is a technical requirement in statute. One change that was made was the city established volumetric rates that were roughly 4 times higher for resellers than for city residents. With that, some people were dissatisfied and contacted MCC once they found out that MCC was not notified of the changes. Another hearing has been scheduled for 9/21/2010 and Mary plans on attending.

TransCanada Keystone Pipeline

Major Facility Siting Act Application-This item is the TransCanada Keystone Pipeline Major Facility Siting Act Application. TransCanada Keystone Pipeline is a 36 inch pipeline running through Eastern Montana for roughly 283 miles. They are proposing 7 pump stations and an associated 6 or 7 power lines, one of them up to 60 miles long, to serve those pump stations. The Commission, which has jurisdiction over the pipelines exercising eminent domain powers required that the pipeline establish on-ramps for Montana producers. A draft environmental impact statement has been issued and comments are being reviewed. On 8/27/2010 Northern Plains Resource Council requested that MCC perform a customer fiscal impact analysis, which MCC is required to do for certain major facility siting act applications. MCC did not think this application qualified because it is a crude oil pipeline, not an electric or natural gas transmission facility or generation station. However, after reviewing the statutes it appears there is a requirement that MCC perform a customer fiscal impact analysis. Larry is in the process of writing a customer fiscal impact analysis for the electric customers of MDU and cooperatives who are providing electric service and building these transmission lines and pump stations.

MARY WRIGHT PROVIDED THE FOLLOWING HIGHLIGHTS OF TELECOM CASES CURRENTLY PENDING:

D2010.5.55-Merger of CenturyLink and Qwest-This case is the proposed Merger of CenturyLink and Qwest. MCC, along with a number of other parties, has intervened. The discovery phase is currently underway and the procedural schedule may have to be pushed back to accommodate some discovery difficulties that have come up. Satellite hearings have been scheduled in West Glacier and in Helena. A technical hearing is currently scheduled for 11/22/2010.

D2010.6.67 Qwest LD Corp. and Qwest Communications Company, Joint Petition for Waiver of Tariff filing Requirements-In 2009 Verizon, Sprint and AT&T filed for permission to be able to change their prices without filing tariffs or price lists at the Commission. Following Order 7114, that granted that relief to Verizon, Spring & AT&T, Qwest has applied for the same treatment. MCC did not intervene due to the prior Commission precedent with Verizon, Sprint and AT&T.

Financial Report

The report provided to the Committee was dated 9/1/2010. Bob reminded the Committee that most categories run behind and there are no major concerns with it being so early in the fiscal year.

2012-2013 Biennium Budget

Bob discussed the budget development process for the next biennium that does need Committee approval for submission into the budget book. Handouts were provided. No changes in salaries were requested for the 2012/2013 biennium and the calculation for benefits is provided by the Budget Office and the Department of Administration. The supplies budget was set based on a 3 year average and remained close to the 2010 budget amount. The communications budget does

fluctuate depending on workload and advertising will need to be done for the vacant position. Also in communications, the Department of Administration has increased network services by roughly \$12,000 because they have moved to a new cost allocation system, the Full Cost Maturity Model. With this new model services are broken down to include all associated costs and agencies are billed on actual usage where as the old model basically had agencies with the highest use paying more than the smaller agencies. MCC experienced a large increase. In the travel budget, historical levels were used to recognize staffing issues. The rent budget is a contracted amount. The repair and maintenance budget was brought down from the 2010 base to an average of past use because the 2010 base included significant costs incurred due to the move. The "other expenses" category remains close to the 2010 base with the exception of a minor increase for known subscription increases and for the increase in Statewide Cost Allocation Plan charges calculated by the Department of Administration. The contracted services budget makes up roughly 60% of the budget and is an area that fluctuates quite a bit depending on caseload. Bob provided a chart graphing the last 8 years of actual expenses in contracted services to show the fluctuation. The amount needed has been as high as \$922,000 and as low as \$352,684, unfortunately that low amount is the base year for this budget cycle. To figure the amount for 2012 and 2013 an average was taken of actual expenditures of the last 5 years, coming up with \$644,702. In addition to the base amount, there is also a contingency amount that is established in statute. The nature of the contingency is it is there for emergency use and is not expected to be used but it has been used substantially four out of the last five years. The average actual expenditures for the past five years is \$644,702 plus a contingency of \$250,000 is \$894,702. There are some other miscellaneous items in that category that bring the amount to \$940,941 but the biggest item there is the \$894,702 for contracted services. Although this appears to be a large increase from the 2010 base and the 2011 budget, having used the contingency 5 of the last 8 years, the 2012 and 2013 request appears to be reasonable and allows for less reliance on using the contingency. Increases in the budget are largely caused by three basic components: the contingency fund, the historic low base year of 2010, and the 2011

budget being low due to the reduction of \$375,000 during last legislative session. Senator Murphy asked how consistent or how dependable the contingency amount is from year to year. Bob said that the contingency is a line item and is set at \$250,000. Representative Berry asked if the proposed budget needed to be approved or if modifications could be made. Bob said that it does have to be approved by this Committee but there is time for modifications to be made. Senator Murphy added that approval needs to be done soon and in time for the budget books to get published. Representative Noonan recommended voting on the budget proposal and Senator Murphy entertained a motion to either approve of the proposed budget as presented or any amendments that might be offered by Committee members.

MOTION: Representative Noonan moved to approve the budget as presented to the Committee.

VOTE: The motion passed three to one, with Representative Berry voting no.

HIRING OF EXPERT WITNESSES

MOTION: Representative Berry moved approval to hire the services of the following expert witnesses:

D2010.7.77-NWE Revised QF-1 Rate:

John Wilson

D2010.8.82-MDU General Electric Rate Case:

Al Clark, Revenue Requirement

John Wilson, Cost of Service and Rate of Return

Jack Pous, Depreciation

D2010.9.90-Energy West Montana General Rate Case:

Al Clark, Revenue Requirement
John Wilson and George Donkin, Cost of Service and Rate of Return

VOTE: The motion passed unanimously.

MOTION: Representative Noonan moved to schedule the next meeting for December 9, 2010.

VOTE: The motion passed unanimously.

The next meeting will be set for December 9, 2010 at 10:00 am.

Public Comments

Based on HB94 requirements, a public comment period was offered, but none was given.

Adjournment

There being no further business to come before the Committee, the meeting adjourned.

Respectfully submitted,

_____, Robert Nelson, Consumer Counsel

Accepted by the Committee this ____ day of _____, 2010

_____, Chairman.