

COMMENTS

OF THE MONTANA ELECTRIC COOPERATIVES' ASSOCIATION ON MONTANA UNIVERSAL SYSTEMS BENEFIT PROGRAM

BEFORE THE ENERGY AND TELECOMMUNICATIONS INTERIM COMMITTEE

Submitted on February 23, 2004

Background Information on Montana Electric Cooperatives' Association (MECA):

MECA is an association comprised of 26 electric distribution cooperatives serving more than 400,000 Montanans. These 26 electric cooperatives are not-for-profit utilities owned by their customers and ranging in size from approximately 50,000 customers to cooperatives with less than 1,000 customers. The electric cooperatives have electric distribution systems operating in all 56 counties of Montana, with more than 46,000 miles of transmission and distribution line and about 2.3 customers per mile of power line.

General Comments:

Montana's electric cooperatives remain supportive of the existing Universal Systems Benefit Program (USBP), which requires that electric utilities annually spend a minimum equal to 2.4 percent of base-year electricity sales on conservation, renewable resources and low-income energy bill assistance. Of that overall 2.4 percent requirement, at least 17 percent must be spent on low-income energy bill assistance programs.

Electric cooperatives' combined USBP expenditures have risen steadily since the program was established in 1999. In 2002, our overall expenditures exceeded the minimum requirement by \$1.474 million, totaling 3.33 percent of the 1995 base-year revenues. Low-income energy bill assistance expenditures exceeded our minimum requirement by \$334,152, reaching 25.78 percent of the 2.4 percent requirement.

Specific Recommendations:

1. **Retain the ability of electric cooperatives to self-direct USBP programs.** Self-direction of USBP is vital to cost-effective operation of these programs and the ability to do so – based on the principle of local control – was fundamental to preventing cooperatives' opposition to establishment of USBP. The freedom to self direct is

essential to ensuring that USBP dollars are allocated in the most cost effective manner, based on a case-by-case basis of individual circumstances in local communities. A system of centralized command and control could never begin to match the cost effectiveness and efficiencies of local control. Moreover, a statewide-administered program, with its inherent additional layer of administrative costs, would result in even greater inefficient expenditure of USBP dollars.

Self-direction has been discussed at length by various committees and interim committees of the Montana Legislature, and has been the focus of a myriad of legislative hearings. Each time, the Legislature has concluded that self-direction is a critical component of USBP. Most recently, self-direction was again examined as part of consideration of House Bill 509, Senate Bill 70 and Senate Bill 77 passed by the 2003 Legislature.

In addition, the experience outside Montana has been that placing these types of funds in state coffers can leave them all too vulnerable to use for other purposes. For example, the Texas Legislature, in an effort to cover a state budget shortfall, recently decided to tap into its USBP-type fund. This is a danger that is avoided by allowing electric utilities to self-direct.

To be able to expend USBP dollars in the most cost effective manner requires extensive knowledge of local needs and existing local programs that can assist cooperative utilities in ensuring USBP expenditures are fully consistent with legislative intent. Attempting to accomplish this objective by creating a new, centralized state bureaucracy not only will significantly add to administrative costs but also will seriously harm already-established, highly effective local programs.

A good example is Glacier Electric Cooperative, which serves the Blackfeet Indian Reservation, and is headquartered in Cut Bank. This cooperative currently operates several programs that directly benefit low-income members of the cooperative. Most recently, the cooperative made two contributions of \$7,000 each to the Blackfeet Tribe's Energy Crisis Program. This money is used specifically for low-income members of Glacier Electric Cooperative who are having difficulty paying their electricity bills. Fund applicants are required to complete a request form and provide proof of need to receive payment. The maximum payment per account is \$400 and they are required to pay at least 10 percent of the amount themselves. This program generates matching funds through federal and state programs and may also result in similar donations by the Blackfeet Tribe. The program is managed by the Energy Assistance office and is closely monitored. All recipients meet the state USBP's poverty standards.

It was the cooperative's knowledge of and close relationship with the tribe that facilitated establishment of this cost-effective local program – something that a state administered program would be unlikely to be able to duplicate.

Another example of the effectiveness of self-direction is the low-income energy assistance program established by Marias River Electric Cooperative headquartered in

Shelby. The cooperative's board of directors created a Marias River Electric Low-Income Energy Assistance Program (MRE LIEAP). Five co-op members were appointed to administer the local program and determine who will receive assistance. MRE LIEAP uses the same criteria as the state LIEAP to determine qualification for assistance. The program is fuel blind and makes awards for weatherization upgrades, 0 percent interest loans, heating upgrade grants, grants for energy-efficient equipment, as well as payments for energy costs.

2. Retain authority to receive USBP credit for conservation, renewable resource programs and low-income energy bill assistance costs embedded in wholesale power purchases.

This authority was specifically granted by the 2001 Legislature with the passage of Senate Bill 56. The bill, which was recommended by the Transition Advisory Committee following extensive discussions leading up to the 2001 session, passed by overwhelming margins of 43-5 in the Senate and 82-18 in the House of Representatives. Passage of SB 56 fulfilled a commitment the 1997 Legislature made to allow cooperatives to receive credit for USBP projects co-op customers were already paying – and continuing to pay for – through their monthly power bills. To explain that through analogy, just because you bought a house five years ago, and are still paying the mortgage, shouldn't mean you should have to buy another house today to support the housing industry. During consideration of SB 56 the bill's supporters in the Legislature pledged that its passage would not lead to decreased USBP expenditures in our state. That pledge, as noted in the comments above on increasing USBP expenditures by Montana's electric cooperatives, has been kept.

These wholesale programs include amortized, historic projects which have directly assisted in reducing electric energy consumption in the Pacific Northwest by more than 750 megawatts region-wide – not an insignificant amount in a region facing serious electricity shortages. More than \$14 million has been spent on these conservation projects in Montana alone.

3. Retain 1995 as the base year for determining USBP expenditure obligations.

This matter has been considered in virtually every session of the Legislature and by interim legislative committees since the USBP program was first considered and adopted by the 1997 Legislature. Retention of 1995 as the base year ensures that electric rates are not increased as a direct result of USBP. This is an important consideration in a state with a perpetually weak overall economy where good-paying jobs and major industries are not in abundance.

Moreover, mandated annual expansion in USBP spending requirements does not appear to be justifiable on the basis of concern about the lack of investment in conservation,

renewable resource projects or future increases in electricity prices. These were major concerns used to establish the USBP program.

A new federal Department of Energy report predicts a gradual drop in power costs that will last for the next several years. Average electricity prices are expected to decline by 8 percent, from 7.2 cents per kWh in 2002 to 6.6 cents in 2003, and to remain relatively stable until 2011. After 2011, the costs are projected to increase by less than 1 percent annually until reaching 6.9 cents per kWh in 2025. This stability, according to DOE, is due to several factors, including increased market saturation of electric appliances, improvements in energy equipment efficiency, utility investments in demand-side management programs (conservation) and more stringent equipment efficiency standards.

4. Retain authority to receive USBP credit for partial or full waivers of utility and other low-income connection and reconnection fees, application fees and late payment charges and partial or full forgiveness of home energy bill arrearages.

This matter was thoroughly considered in 1996 by the Low-Income Energy Bill Assistance Task Force created by then Gov. Marc Racicot. MECA was part of this working group. The task force recommended allowance of credits for these bill write-offs and the committees of jurisdiction of the 1997 Montana Legislature discussed their support for this concept when they considered SB 390, the electric industry restructuring law that established USBP. Credit for utility bill write-offs was again considered by a USBP subcommittee of the Transition Advisory Committee (TAC) in the 2001-2002 interim. The subcommittee chose to support continuance of these credits and the subcommittee's recommendation was adopted by TAC.

This program is subject to strict accountability rules, leaving no room for abuse. Under existing USBP rules, a utility may only receive credit for bill write-offs of customers who meet low-income customer eligibility requirements. This applies to households whose annualized income is 150 percent or less of federal poverty guidelines. Exceptions are subject to documentation on an individualized basis.

These bill write-offs have been alleged by some to be ineffective in assisting low-income customers. However, who could reasonably doubt the helpfulness of forgiving a low-income customer's bad debt as that customer struggles to make ends meet during an especially harsh winter? The significance of debt relief in assisting low-income customers through financial hard times cannot be understated.

5. Consider removing ineffective renewable resource projects from USBP eligibility, thus freeing up more funds for other, more cost-effective programs.

Because cost-effectiveness is a key principle of the USBP law, this change would ensure USBP funds are not being wastefully spent on capital-intensive projects that intensive yet yield little, if any, cost savings.

Summary

In closing, we urge that the overall existing Universal Systems Benefit Program be left unchanged. The existing program is the product of extensive negotiations and represents a delicate balance struck by interested parties. To attempt to make major changes will upset this balance, likely jeopardizing the future of this program.