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Energy and Telecommunications Interim Committee

62nd Montana Legislature

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May 1, 2012

To: ETIC members
From: Sonja Nowakowski, ETIC staff
Re: Rural electric cooperatives

Attached is a copy of the Northwest Public Power Association newsletter. Chairman Olson requested that it be distributed to ETIC members. Item No. 4 discusses cooperative transparency.

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We remember: Donald Hughes

Donald Hughes, a former Cowlitz PUD assistant general manager, died on March 27, 2012, at St. John Medical Center. He was 85 years old.

Hughes was born in Spokane, to Harry H. and Mary P. Hughes on February 4, 1927, and graduated from Spokane's Lewis and Clark High School. He also served in the Navy and was stationed in Chicago and Gulfport, Miss.

Hughes met his wife, Gladys, at Washington State College. The couple, who didn't have children, married in 1949. In 1950, he joined the PUD as a draftsman after graduating from Washington State with a Bachelor of Science in electrical engineering.

Hughes became the PUD's second in command in January 1987 before retiring in March 1988. He had given 38 years to the PUD.

He developed a reputation as a steady and exceedingly kind man.

Beartooth Electric hires interim general manager

The board of trustees of Beartooth Electric Cooperative (BEC), headquartered in Red Lodge Mont., is pleased to announce the appointment of its new interim general manager, Richard G. Peck. Currently a resident of Dutch Harbor, Alaska, Peck will assume his duties this week, starting on April 15. While at BEC, he will focus on budgeting and financial planning to keep BEC a strong, reliable provider of electric service to its members.

Peck is well known and respected in Montana. In a career spanning more than 30 years in the rural electrification industry, he served 20 as the general manager of several electrical coops (nine at Fergus Electric in Lewistown, Mont.) and participated in a range of regional utility initiatives. His experience and expertise managing co-ops during turbulent times make him ideally suited to manage BEC during the uncertainty and stress caused by the bankruptcy of Southern Montana Electric, BEC's wholesale power supplier.

The board will address hiring a permanent manager when it knows the outcome of Southern's bankruptcy. When Southern filed for bankruptcy in October, it had debts that exceeded assets of more than \$20 million. At the time, it had yet to start repayment of an \$85 million loan for the Highwood Generation Station it built near Great Falls. A contract BEC signed with Southern in 2008 obligates it to pay Southern's debt and operating expenses, even during bankruptcy. Depending upon the court's decision, BEC could potentially face a staggering obligation to reimburse Southern's creditors millions of dollars.

"As we negotiate this turbulent time, the board of trustees of Beartooth Electric Cooperative is delighted to have someone of Dick's industry experience, knowledge, and expertise on its team," said Roxie Melton, president of the board.

Chelan fiber recommendation would keep network operating, protect electric rates

On April 9, after months of feedback from customers and extensive analysis around potential alternatives, costs, and benefits, General Manager John Janney recommended that Chelan County PUD (Wenatchee, Wash.) continue operating its fiber-optic network and take steps to put it on more stable financial footing before considering any further expansion to unserved areas. The network now offers access to about 70 percent of the county.

Janney made his recommendation to PUD commissioners in a special meeting at the PUD Auditorium attended by about 20 customers and several service providers. The recommendation was selected from three alternatives previously presented at community meetings throughout the county: 1) sell the fiber network to a third party; 2) keep the network, improve the operation, and try to make it self-sustaining over time; and 3) continue the build-out and raise electric rates up to 17 percent to pay for it.

Through extensive public outreach, the PUD learned that most customer-owners see value in the fiber network and like the concept of maintaining local control. A majority of customer-owners have expressed concerns about raising electric rates to pay for network expansion.

Janney said his recommendation is in line with what most PUD customers have said for the past three years about protecting low electric rates and trying to move PUD services that are not part of the core electric business toward

supporting themselves financially. One of the PUD's 2012 priorities includes developing comprehensive five-year business plans for each of its non-electric systems – water, wastewater, and fiber – to help move toward long-term operational and financial sustainability without relying on ongoing subsidies from electric customers.

The fiber network now loses about \$8 million a year, and impacts from investing nearly \$120 million in the system so far will be felt by PUD electric customers for many years. After determining that the fiber network could never repay a \$99 million internal loan from the PUD's electric system, Janney's recommendation included writing off the loan and treating the investment as a sunk cost. He said that should be contingent on implementing stringent financial policies for the fiber network from this point forward in order to avoid digging another financial hole for the PUD.

Janney also recommended that the PUD implement all reasonable and cost-effective recommendations made by outside experts to improve fiber operations over the next several years. Those include encouraging service providers to sign up homes and businesses where a partial or complete fiber service drop is already on the building or nearby. There are more than 8,000 premises that fit that description – that would be low cost to connect – but where no services are being taken at the moment.

Janney said his goal is to keep the network functioning reliably and to move it toward covering its annual and long-term expenses. If the PUD is successful in that approach, funding for operations and new capital would be generated by the fiber network and it would not rely on funding from electric rates or reserves, and it's possible the fiber network may generate enough revenue to enable limited expansion in the future. Evaluating suggestions from customers and service providers may also provide for additional expansion opportunities.

Janney said the PUD's Strategic Plan helped him arrive at the recommendation, one of the hardest decisions he's faced in his entire career. That plan, approved in 2010 after extensive public input, established clear financial goals to put the PUD on stable footing for the future. This year, the PUD was able to eliminate a 9-percent surcharge on electric rates due to improved finances. Average residential rates are among the lowest in the country at approximately 3.2 cents per kilowatt hour.

"We are doing our best to balance the priorities of all customer-owners with the obligation to be good stewards of the public's money," Janney said.

PUD commissioners plan to continue discussing the fiber options at their regular meeting today, April 16.

Co-op transparency, a concern in Helena, Central members told

In a well-attended and lively annual meeting on March 29 in Great Falls, Mont., members of Central Montana Electric Power Cooperative heard from a range of speakers on hot-button political and co-op issues.

Montana Public Service Commission Chairman Travis Kavulla attended most of the meeting, including a business meeting on Central's bylaw change process and conveyed his admiration of the process of openness at a time when transparency is of concern to all cooperatives.

Montana Sen. Alan Olson, chairman of the Senate Energy and Telecommunications Committee and chairman of the Energy and Telecommunications Interim Committee, expressed his strong interest in seeing legislation in the coming session that would address so-called take-or-pay power contracts and ensure a realistic assessment of generation investment risks. He was adamant that the Legislature should address openness issues to prevent actions of boards detrimental to members under the guise of confidentiality.

Basin Electric Cooperative CEO Andrew Serri and Jody Sundsted, Western Area Power Administration's Upper Great Plains Marketing manager, teamed up to answer questions and brief members on efforts to maintain access to our markets in a way that sustains the best interests of Central members in the world of transmission and generation. That assessment has been ongoing for more than a year and requires evaluating ways of how to adapt to MISO, the Midwest Independent System Operator. MISO is a regional organization formed for the delivery of electric power across all or parts of 11 states and Manitoba.

Central Manager Doug Hardy briefed members on four areas of activities related to NorthWestern Energy (NWE). Central is intervening in a FERC filing by NWE to raise an ancillary service regulation, from 50 to 60 cents per KW month to around \$1.80. The increase costs Central around half a million dollars per year, some of which is shared with Basin. Central is working with NWE to pseudo-tie some Central loads out of the NWE Load control area into the WAPA load control area which would save several hundred thousand per year.

Another area of work with NWE changes the NWE network transmission agreement with Central updating delivery points and transmission paths to ensure full transmission capacity is reserved. Hardy also told members that Yellowstone Valley Electric Cooperative (YVEC) had applied for, and received, tentative approval to join as a Central member, contingent upon a legal release from YVEC's all-requirements contract with Southern Montana.

Central officers President Dan Gliko, Vice President Clarence Keller, and Secretary Treasurer Melanie Roe were re-elected to their posts in the board's reorganization meeting.

Sun River manager seeks to dispel worries about smart meters

Misinformation about smart metering was a key topic addressed by General Manager Scott Odegard in his report to the Sun River Electric Co-op membership at the utility's annual meeting on March 30 in Fairfield, Mont. Odegard sought to dispel concerns raised about privacy and radiation from smart meters.

Doug Hardy, manager at Central Montana Electric Power Cooperative, gave a report on power supply issues. And in trustee elections, John Burgmaier, Roberta Rohrer, and Randy Parker were all re-elected to the board without opposition. In officer elections after the annual meeting, the board re-elected Burgmaier as president, Parker as vice president, and Rohrer as secretary treasurer.

Higher wholesale energy costs, renewable energy purchases prompt PUD 3 electricity rate increase
On April 10, Mason County PUD No. 3 (Shelton, Wash.) commissioners adopted an increase in electrical rates that will go into effect beginning with May 1 meter readings.

The financial impacts of renewable energy purchases and an increase in price for wholesale electricity purchased from the Bonneville Power Administration (BPA) are among the main reasons for the increase.

The increase includes a 3-percent change in the cost for energy consumption and a 10-cent-per-day increase in the daily customer charge. The last increase in electrical rates was in 2009.

The rate increases are a part of PUD 3's five-year financial plan to ensure safe and reliable energy for PUD customers at the lowest possible rates.

Final Lake Chelan runoff forecast is for 120 percent of average

The third and final [runoff forecast](#) of the season for the Lake Chelan Basin is now posted on the [Chelan PUD website](#). The amount of runoff is forecast at 120 percent of average, an increase from the March forecast of 100 percent of average. Scott Buehn, Chelan PUD resource engineer/analyst, based his calculations on a range of information and analysis including automated Snotel data and snowpack measurements collected the last week of March during a helicopter trip into the mountains above Lake Chelan.

Last year the actual runoff from snow melt into Lake Chelan from April 1-July 31 was 126 percent of average.

The [elevation of Lake Chelan](#) on April 1 was 1083.5 feet above sea level, which is 1.9 feet lower than the expected average under the current operating license and 1 foot lower than last year.

Generation at the Lake Chelan Hydro Project will be managed this winter and spring with the intent of meeting operating objectives in the [Lake Chelan Hydro Operating License](#) as well as minimum lake elevation targets.

Celebrate Greater Wenatchee Arbor Day on Saturday April 21

Celebrate the power of trees at [Arbor Day](#) tree seedling distributions in six local communities on Saturday, April 21.

Learn how to plant the right tree in the right place by talking with local tree experts and Master Gardeners from Washington State University's Extension Program. Following their advice can help prevent tree-caused power outages and add beauty and shade to your property.

Bill Sandborn, Chelan PUD's certified arborist and vegetation program manager, advises customers to think ahead when selecting the type of trees and shrubs for planting near utility lines. Selecting the right tree for the correct planting location keeps tree limbs from growing into power lines, can save energy by providing cooling shade in the summer, and act as a windbreak in the winter.

Chelan County PUD has been named a Tree Line USA Utility for the 14th year in recognition of the utility's responsible care of trees while maintaining reliable electric service.