

Energy and Telecommunications Interim Committee

PO BOX 201706 Helena, MT 59620-1706 (406) 444-3064 FAX (406) 444-3036

61st Montana Legislature

SENATE MEMBERS
JERRY BLACK--Vice Chair
RON ERICKSON
VERDELL JACKSON
CLIFF LARSEN

HOUSE MEMBERS
ROBYN DRISCOLL--Chair
DUANE ANKNEY
TONY BELCOURT
HARRY KLOCK

COMMITTEE STAFF SONJA NOWAKOWSKI, Research Analyst TODD EVERTS, Staff Attorney DAWN FIELD, Secretary

MINUTES

May 13, 2010

Room 172, State Capitol Helena, Montana

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

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COMMITTEE MEMBERS PRESENT

REP. ROBYN DRISCOLL, Chair

SEN. RON ERICKSON SEN. VERDELL JACKSON SEN. CLIFF LARSEN

REP. DUANE ANKNEY REP. TONY BELCOURT REP. HARRY KLOCK

COMMITTEE MEMBERS EXCUSED

SEN. JERRY BLACK, Vice Chair

STAFF PRESENT

SONJA NOWAKOWSKI, Research Analyst TODD EVERTS, Staff Attorney DAWN FIELD, Secretary

AGENDA & VISITORS' LIST

Agenda, Attachment #1. Visitors' list, Attachment #2.

COMMITTEE ACTION

The Energy and Telecommunications Interim Committee:

- approved the January 14, 2010, meeting minutes as written;
- approved the revised statement on energy efficiency and conservation;
- approved a draft energy policy statement; and
- approved the draft energy policy report and 2 related bill drafts for public comment.

CALL TO ORDER AND ROLL CALL

00:00:07 REP. DRISCOLL called the meeting to order at 8:00 a.m. The Secretary took roll, SEN. BLACK was excused (ATTACHMENT 3).

UPDATE ON NCSL/PNWER WORKSHOP

- 00:00:52 SEN. LARSEN and REP. ANKNEY updated the Energy and Telecommunications Interim Committee (ETIC) on the Pacific NorthWest Economic Region (PNWER) conference. They agreed it was very informative and said they were honored to represent the ETIC.
- 00:02:36 REP. ANKNEY reported that the Federal Energy Regulatory Commission (FERC) offered to assist Montana with transmission issues, such as siting transmission lines on federal land. REP. DRISCOLL thanked Sonja Nowakowski, Research Staff, for scanning all of the PNWER meeting documents and posting them on the ETIC website.
- 00:05:32 SEN. ERICKSON asked for information about federal carbon rules and the role of states, as addressed at the meeting. SEN. LARSEN said he would review his notes and get back to SEN. ERICKSON. REP. DRISCOLL said lots of websites were provided which would be excellent sources of information.

SB 290 - ENERGY POLICY REVIEW OF JANUARY TOPICS

"Promoting Conservation and Incentives" and "Energy Efficiency Standards for New Construction"

- O0:07:45 Sonja Nowakowski, Research Analyst, Legislative Services Division (LSD), referred the members to an energy policy development summary sheet she prepared based on public comment and the work done at the January 14, 2010, ETIC meeting (EXHIBIT 1). She said the discussion would also include energy policy statements from SEN. LARSEN (EXHIBIT 2) and from SEN. JACKSON (Appendix G draft copy of Montana's Energy Blueprint EXHIBIT 3). SEN. ERICKSON asked to use SEN. LARSEN's energy policy summary as the lead document. It was agreed.
- O0:12:23 SEN. ERICKSON read aloud the last sentence of SEN. LARSEN's suggested policy regarding promoting energy efficiency and conservation incentives (page 2 EXHIBIT 2). He said that while he believes it is important to promote incentives and credits, budget and revenue issues may prevent that from being doable all of the time. He recommended that no new incentives be added but that existing incentives be expanded.
- 00:14:22 SEN. JACKSON agreed that it may be difficult to fund conservation programs. He read his policy statement aloud (Appendix G EXHIBIT 3) and said that

monitoring conservation programs would indicate what incentive programs are working.

- 00:15:40 SEN. LARSEN said his language was included because it is important to industry and the advancement of creative thinking to encourage efficiencies and conservation. He said his language didn't necessarily mean that a committee bill is needed but could be used as a framework for encouraging conservation and efficiencies.
- 00:16:31 SEN. ERICKSON commented that the idea of incentives and tax credits can't simply be measured in terms of time. He said that immediate payback is not always the goal, but to generally advance the industry.
- 00:17:51 SEN. JACKSON said that monitoring tax credits, grants, and loans is very important in order to determine if they are cost effective. SEN. ERICKSON said it would depend on how "cost effective" is defined but agreed that monitoring would be useful.

Public Comment

- O0:19:13 Doug Hardy, Montana Electric Cooperatives Association (MECA), said that cooperatives have a long history of promoting energy efficiencies and conservation. He commented on SEN. LARSEN's energy policy summary statement regarding energy efficiency and conservation incentives (Pages 2 & 3 EXHIBIT 2) and the cooperatives' concern regarding interpretation of the language, saying that different interpretations of that language could impact cooperatives and their ability to serve their customers in a cost-effective manner, specifically preservation of local cooperatives' decision-making authority and the impact of requiring cooperatives to offer energy audits. Mr. Hardy passed out copies of an article regarding efficiency subsidy fallacies (EXHIBIT 4).
- O0:25:30 Chuck Mcgraw, Natural Resources Defense Council & Renewable
 Northwest Project, said that existing state energy policy is quite good. He read
 from the current state energy policy statement and said that it captures most of
 the elements of a sound energy policy. He emphasized that there are significant
 benefits of energy efficiency, both to the state and to its citizens. He said it is very
 important for the state to encourage, incentivize, and to require its utilities to
 obtain all the energy efficiencies it can. He listed several reasons why promoting
 energy efficiencies and conservation are so important:
 - it reduces customers' bills;
 - it can forestall and defer the cost of new generation, thus saving customers additional money;
 - it allows customers to spend that savings elsewhere in the economy a spinoff economic benefit;
 - creation of an energy efficiency industry creates jobs; and
 - energy efficiencies can forestall the need for expensive transmission system upgrades.

Mr. Mcgraw discussed a national study which revealed that a half-trillion dollars could be saved if energy efficiency was scaled up between 2009 and 2020, which he said would translate to approximately hundreds of thousands of dollars

in saving to Montanans. He said the one thing the ETIC and legislature should do to put Montana on a sound energy pathway is to adopt a strong set of energy efficiency policies for the state.

- 00:31:18 REP. DRISCOLL asked Mike Pichette, NorthWest Energy, to update the ETIC on the smart grid pilot project.
- 00:31:38 **Mike Pichette, NorthWestern Energy (NWE),** reported that NWE applied for and was awarded funds from the Bonneville Power Administration's (BPA) federal stimulus grant funds to conduct a five-year smart grid advance metering pilot project in Helena. He said that green block projects are also underway in Missoula and will be added to Helena also.

Committee discussion: promoting energy efficiency and conservation incentives

- O0:34:35

 SEN. ERICKSON referred to SEN. LARSEN's energy policy summary (EXHIBIT 2) and asked to insert "for regulated public utilities" after the word, "initiatives" (second sentence, top of page 3) to clarify that electric cooperatives are not included in the Public Service Commission's (PSC) duties regarding implementation and enforcement of energy efficiency-related initiatives. SEN. ERICKSON discussed Mr. Hardy's concerns about cooperatives being required to offer energy audits. He said his opinion is that if the state is really serious about conservation, energy audits need to be part of a program and that he is not in favor of removing that language.
- 00:37:23 SEN. JACKSON said he is very impressed with cooperatives' local control and their efforts to keep costs down. He said they should be allowed to set their own priorities and incentives and that he is not in favor of placing state requirements on them.
- O0:38:20 SEN. LARSEN and SEN. JACKSON discussed the energy efficiency and conservation language in the energy policy statement. Ms. Nowakowski read aloud the proposed, revised language: "Recognizing that Montana cooperatives have a long history of local control, utilities in Montana, including both rural electric cooperatives and investor-owned utilities, should demonstrate that they are prioritizing and pursuing the acquisition of all cost-effective energy efficiency on their system. This should include the offering of energy audits to their customers."
- 00:42:18 It was agreed that the proposed revised language was acceptable to all.
- O0:43:04 SEN. ERICKSON moved to approve the revised statement on energy efficiency and conservation incentives. He asked Ms. Nowakowski to read it back again. SEN. ERICKSON said he has remaining concerns about the next sentence dealing with the PSC's authority in enforcing efficiency and conservation programs. Ms. Nowakowski read back, "Recognizing that Montana cooperatives have a long history of local control, utilities in Montana, including both rural electric cooperatives and investor-owned utilities, should demonstrate that they are prioritizing and pursuing the acquisition of all cost-effective energy efficiency on their system. This should include the offering of energy audits to

their customers. In addition, the Public Service Commission should implement and encourage efficiency-related initiatives for regulated public utilities, including smart grid deployment, demand response, decoupling, and energy efficiency resource standards." SEN. JACKSON said he remains concerned about the requirements in the language and asked Commissioner Jergeson if the PSC has the authority to do these things already.

- O0:46:32 **Greg Jergeson, Chair, Public Service Commission (PSC),** said that the Commission does have authority relating to those topics. He said he not sure that this would be a policy recommendation that would result in a statutory change or if it would be a reiteration of sound energy efficiency policy. He said the language limiting the PSC's role is fine.
- SEN. JACKSON discussed his concerns regarding the decoupling issue. 00:49:02 Commissioner Jergeson responded. SEN. ERICKSON commented that policy doesn't always mean legislation. He said that the context of the issue must be considered and that the language must fit with the overall idea of the importance of conservation. Ms. Nowakowski read proposed, revised language: "Recognizing that Montana cooperatives have a long history of local control, utilities in Montana, including both rural electric cooperatives and investor-owned utilities, should demonstrate that they are prioritizing and pursuing the acquisition of all cost-effective energy efficiency on their system. This should include the offering of energy audits to their customers. In addition, the Public Service Commission, using its existing authority, should implement and encourage efficiency-related initiatives for regulated public utilities, including smart grid deployment, demand response, decoupling, and energy efficiency resource standards. Expanding energy incentives is necessary to promote and encourage consumer investment in energy efficiency. It is also useful to monitor existing incentives to determine if they are cost-effective."
- 00:53:24 SEN. ERICKSON moved to approve the statement as amended. The motion passed on a unanimous voice vote.
 - SEN. ERICKSON moved the entire statement to be part of the energy policy statement. The ETIC discussed whether tax credits were to be included. It was decided that the ETIC would vote on the language regarding tax credits in a separate vote. SEN. ERICKSON moved to approve the revised energy policy statement on promoting energy efficiency and conservation incentives. The motion passed on a unanimous voice vote.
- 00:57:40 The ETIC discussed options regarding tax credits. SEN. JACKSON suggested using his language (Appendix G EXHIBIT 3).
- 00:58:31 REP. BELCOURT suggested using "expanding energy incentives is necessary to promote and encourage consumer investment in energy efficiency". Ms. Nowakowski read proposed, revised language: "expanding energy incentives is necessary to promote and encourage consumer investment in energy efficiency, It is also useful to monitor existing incentives to determine if they are costeffective." SEN. ERICKSON agreed that monitoring is useful but said he has

concerns about the term "cost-effective". SEN. LARSEN moved to accept the language regarding energy incentives, as read by Ms. Nowakowski. The motion passed on a unanimous voice vote.

Committee discussion: promoting energy efficiency standards for new construction

- 01:02:12 SEN. LARSEN said that efficient building will conserve a lot of energy and at this time, only about 50% of new homes are constructed use reasonable conservation standards.
- Ms. Nowakowski reminded the committee members that SEN. LARSEN's summary (EXHIBIT 2), SEN. JACKSON's statement (Appendix G EXHIBIT 3), and the energy policy summary statement, which was based on public comment and drafted by staff (EXHIBIT 1) could all be considered in drafting a statement on energy efficiency standards for new construction.
- 01:03:54 SEN. JACKSON said the Department of Environmental Quality (DEQ) worked on building standards and adopted the uniform building code. He asked if the ETIC draft statement would conflict with the DEQ's standards.
- O1:04:45

 Lou Moore, Chief, Energy and Pollution Prevention Bureau, DEQ, said that the DEQ worked closely with the Department of Labor and Industry (DOLI) on the adoption of the codes. She said that the DEQ requested that the 2009 International Energy Conservation Code, which is part of the international standards being revised. Ms. Moore said it appears that both statements are on the "same page" and that the 2009 version is the updated version of the language. SEN. JACKSON said he is concerned that the standards may be restrictive and said he would prefer an overall performance standard, rather than a prescriptive standard. Ms. Moore said there is an alternative in the code that would allow for performance, rather than prescriptive standards.
- O1:07:57 **Todd Everts, Staff Attorney,** said that the 2009 Legislature enacted High Performance Building Standards for new state owned and federal buildings. He said that one of the standards was to exceed the international code standards by 20%, so strict standards are already in place.
- O1:08:49 **Dustin Stewart, Montana Building Association,** confirmed that Montana does use the international energy conservation code. He said that the 2009 standard went into effect in March and he explained how the code is enforced and said that the code is updated every three years.
- 01:10:20 SEN. LARSEN said that the ETIC language should be consistent with the DEQ and other standards because it is important that the ETIC has a comment in its policy regarding the legislative intent and gives direction to the public.
- 01:10:48 REP. BELCOURT asked if tribal governments are a certified jurisdiction that must adopt the standards. Mr. Stewart did not think that tribal governments are required to adopt the standards. REP. BELCOURT said that tribal governments operate under different standards and that care must be taken to not lump them

in with other jurisdictions. SEN. LARSEN said that language could be added to accommodate REP. BELCOURT's concerns.

- O1:12:07 REP. ANKNEY said he thought that tribal housing fell under HUD. He asked if HUD has adopted the code. Mr. Stewart said no, that HUD housing is exempt from the 2009 energy code. REP. BELCOURT said that there are many federal agencies and private home owners that could be affected by the language. SEN. ERICKSON agreed with idea of having Ms. Nowakowski work on language to address tribal concerns and with the idea that there needs to be a policy statement about this, but funding for enforcement is also very important. SEN. ERICKSON said that the testimony received on this issue overwhelmingly indicated the lack of enforcement, particularly in rural areas, and that there needs to be an energy code that is funded and properly enforced.
- 01:17:30 REP. ANKNEY asked who will enforce the code in the very rural reaches of the state and where the financial support will come from. He said if "teeth" are going to be put into enforcement, it had better be funded accordingly. SEN. JACKSON disagreed with the testimony that fewer than half of the new homes being built are energy efficient.
- 01:19:59 SEN. LARSEN said that standards have been adopted and that the issue seems to be how to enforce the code. He said that the ETIC's language should be consistent with the existing state policy and asked Ms. Nowakowski to work on language that would accomplish that. The debate is not whether the standard should be adopted, but how to enforce it.
- Ms. Nowakowski read a rough draft that would address the issues and concerns discussed by the members: "A strong energy code must work in tandem with the standardized enforcement system to ensure that all home owners and business owners, regardless of their location in the state, while recognizing tribal sovereignty and local governments' existing authority, are experiencing the economic benefits of the state's current energy code". She said that language could be added to address funding for enforcement and that the state must work with local government jurisdictions on enforcement. SEN. JACKSON said he prefers self-certification and that there is no evidence it is not being followed. He said he does not support a standardized enforcement system because it would preempt other enforcement measures already in place.

Public Comment - energy efficiency standards for new construction

O1:23:37 Dustin Stewart, MBIA, said that stakeholders met recently and had a similar discussion. He said he generally supports the policy statements by SEN. LARSON and explained how building standards are enforced currently, including the self-certification system. He said legislation passed in 2009 requires written contracts for homes and that if the home does not meet code, the homeowner has the authority to make sure that happens. He said the MBIA would have substantial concern about a statewide standardized system of enforcing building codes and inspections because the rural nature of the state would make it very

difficult and expensive. Mr. Stewart referred to a 1999 legislative audit to support his comment.

- O1:26:39 Chuck Mcgraw, Natural Resource Defense Council and Renewable Northwest Project, said that the stakeholder group discussed SEN. JACKSON's concerns regarding self-certification and said there are information gaps with respect to how the program functions. He said that the stakeholders are funding a study to see exactly what is going on with self-certification and if builders are building to code. He suggested the following language: "A strong energy code ensures that all homeowners and business owners, regardless of their location in the state, are experiencing the economic benefits of the state's current energy code."
- 01:29:00 **Mike Hughs, home builder, Helena,** said he does not support having a statewide enforcement system and disagreed that new homes are not being built to meet efficiency standards. He said that most homes being built are financed by either FHA, RD, or VA loans, and that the lender requires that a fee inspector is assigned to do three inspections on the home. He said that he disagreed with the added features to the code because of the cost and discussed several examples. He said he is on board with energy efficiency but that the economic cost and real dollars involved must be a part of the discussion.

Committee Discussion

- O1:36:09 SEN. ERICKSON asked Mr. Mcgraw to clarify his position regarding enforcement of building codes. Mr. Mcgraw said there is a compliance issue with the state's building code program. He said that having more information would be valuable but that there is hope that the stakeholder group will be able to come up with some solutions. He said that everyone wants a building code program that works for home owners, the building industry, and the state, and that if the ETIC wants to identify enforcement and compliance as an issue, it should do so.
- 01:38:38 SEN. ERICKSON said enforcement is a contentious issue and asked if the ETIC policy should address the state's role in enforcement. Mr. Mcgraw said yes, because legislators are charged with acting in the best interest of the State's citizens and adoption of a building code program that works would be in the best interest of the citizens.
- 01:40:14 SEN. ERICKSON suggested changing the last sentence to: "The state should provide adequate financial support and financial support to counties and to appropriate agencies" to be inlcusive.
- 01:41:09 Ms. Nowakowski suggested using, "*local government jurisdictions or appropriate agencies*".
- 01:41:37 REP. ANKNEY said he does not think the state needs to be involved with enforcing the code because the lending agencies are already doing it. He said another problem is that in certain situations, the codes are not necessarily appropriate or needed. He said that there needs to be language to exclude tribal lands also.

- 01:43:12 REP. BELCOURT said that as a builder of over 100 homes a year on reservations, his homes have never been inspected. He said that some type of enforcement is needed.
- 01:44:31 SEN. JACKSON said he doesn't think there is a problem in the area of enforcement that based on what he has heard at the meeting, he would like to completely drop the issue.
- O1:45:54 REP. ANKNEY noted that the inspection places requirements on new construction only. He asked REP. BELCOURT if inspections have to be authorized by the tribe. REP. BELCOURT discussed the example of Box Elder, saying that it is surrounded by reservation lands but that homes built in Box Elder are on deeded ground. He said that inspectors will not come to Box Elder because they say they have no jurisdiction and that county officials won't help either. The town is not incorporated, so there is no help there either.
- 01:47:10 Mr. Hughes said it is a very black and white issue: without inspections on those loans, the homeowner will not get the loan. He said that every government-assisted or guaranteed loan would be affected and that housing would come to a standstill.
- 01:48:28 **10-minute break**
- 02:06:43 REP. DRISCOLL asked Ms. Nowakowski to read the suggested proposed, revised language. Ms. Nowakowski read language: " A strong energy code ensures that all homeowners and business owners experience the economic benefits of energy efficiency and conservation. An energy code must work in tandem with an enforcement system that is unique to Montana, recognizes tribal sovereignty, local government authority, and existing self certification programs. The appropriate state agencies, local government entities, and stakeholders are encouraged to work together and review the existing enforcement system in Montana and recommend changes to the Legislature if necessary."

 SEN. ERICKSON and SEN. JACKSON agreed that the proposed language was suitable. SEN. ERICKSON moved to approve the statement, as read. The motion was approved by a unanimous voice vote.

Agency overview presentation

- 02:09:33 **Greg Jergeson, Chair, Public Service Commission (PSC),** said energy efficiency is a priority topic of the Commission. Chairman Jergeson discussed a number of topics:
 - PSC staff is working with stakeholders on an effective and workable policy for "one call";
 - a merger proposal between CenturyLink and Qwest will be discussed at an informational meeting on May 25, 2010;

- the Commission is studying the controversy regarding the priority list for the NTIA broadband stimulus grants and ascertained that all six applications meet PSC priorities;
- a decision on the QF 1 docket on May 6, 2010, regarding selling to NWE;
- an upcoming hearing on a QF proposal (Kentfield Project) because of a dispute with NWE;
- the NWE rate case is ongoing and no hearing date is set at this time;
- the PSC is working with Keystone Pipeline regarding Keystone's need for common carrier status to transport oil from Alberta to Texas and determining what, if any, access Montana oil will have to the pipeline;
- have reviewed periodic updates on Mill Creek from NWE;
- regional transmission issues, including a 40 -state transmission planning effort over 4 years;
- the Commissioners traveled to an interstate meeting with Bonneville Power Administration to discuss transmission issues of concern and also to discuss a pilot program funded with American Recovery and Reinvestment Act (ARRA) money and utilities on smart grid; and
- processing of several small water companies: hearings, petitions, new and emerging issues.

Committee questions

- O2:21:45 SEN. ERICKSON asked what the odds are of Montana being able to put oil on the Keystone Pipeline. Commissioner Jergeson said the case will need to be made by the intervener, as a condition for the PSC to grant common carrier status, that an on-ramp to the pipeline be made. He said that there will a cost associated with an on-ramp though, and that those who want to access the pipeline must be prepared to pay for the access.
- O2:23:35 SEN. JACKSON said that the ETIC has a policy statement that conservation and efficiency may mitigate the need for electric transmission. He asked Commissioner Jergeson to comment. Commissioner Jergeson agreed that conservation and efficiency could mitigate the need for transmission. He said it will be increasingly more important to find ways to lessen the impact of future transmission and generation needs and that the PSC is already looking at different options, given the costs involved and the potential impact on consumers' bills.
- O2:28:10 SEN. JACKSON said it is difficult to get electricity out of the state and that ratepayers should not be expected to pay the costs of building new transmission and exporting power. He asked Commissioner Jergeson to comment on Montana's energy resources and if there are long range plans to export surplus electricity to support the general fund. Commissioner Jergeson said that generators do want to export to the big markets and make the argument that the ratepayer should bear the cost because of the benefits of the economic development that would occur. He said that the Commission has argued that the customer should not be burdened with that but the bulk of such decisions will be made by the Federal Energy Regulatory Commission (FERC).

DENBURY RESOURCES, INC., AND ENCORE ACQUISITION

- O2:32:13 Greg Schnake, Executive Director, Government Relations, Denbury Resources, Inc., discussed the history of Denbury Resources and distributed a map of Montana's estimated recoverable barrels with carbon dioxide enhanced oil recovery (CO₂-EOR) (EXHIBIT 5) and a map of potential tertiary oil reserves of the Rocky Mountain region (EXHIBIT 6). Mr. Schnake discussed several key points:
 - the United States and individual states have to recognize, in law, that CO₂-EOR is a carbon capture solution and that the oil fields represent the place where carbon capture technologies will be tried, tested, utilized, and deployed;
 - the need for market security because of the large investments required;
 - that CO₂ has to "show up" and that active work must be ongoing to further the industry, such as research, transmission, and infrastructure; and
 - the need for reasonable rules.
- Mr. Schnake said that Denbury Resources, Inc., purchased Encore Acquisitions and is pleased to be in Montana. He referred to EXHIBIT 5 (Montana's estimated recoverable barrels with CO₂-EOR and said that estimated production is 14,000 barrels per day. Mr. Schnake discussed other details of Denbury's planned operations in Montana.
- O2:50:21 SEN. JACKSON asked if the natural CO₂ in the ground is in liquid form and why it stays underground. Mr. Schnake explained how dome structures deep underground are filled with compressed CO₂, which is a liquid-like substance. The CO₂ intermingles with the oil and both substances come back up to the surface. The oil is separated from the CO₂ and the CO₂ in pumped back underground. Much of the CO₂ replaces groundwater or the residual oil, which is why it does not come out of the ground.
- 02:53:00 SEN. ERICKSON asked for more details regarding Lost Cabin. Mr. Schnake said that Lost Cabin is a methane production facility and is a rich source of CO₂. and that plan is to utilize CO₂ in the Bell Creek area as part of the injection process, beginning in 2013. SEN. ERICKSON asked if Denbury is actively working with companies on a gasification plant. Mr. Schnake said that Denbury is actively contacting companies but could not discuss negotiations at this time. He said that Denbury will have to develop man-made sources and would not have purchased the properties, had Denbury not believed that could be done. SEN. ERICKSON asked if there is a time frame for how long the CO₂ in Lost Cabin will last. Mr. Schnake said he did not but could say that he expects to have long-term commitments for all of Denbury's sources. He said he would try to get a better answer for SEN. ERICKSON.
- 02:58:18 SEN. LARSEN asked if the methane now being flared at Lost Cabin is also burning off CO₂. Mr. Schnake said yes, because there is no market for the CO₂. SEN. LARSEN asked if Denbury has contemplated using coal-burning power plants as a source of CO₂. Mr. Schnake said yes but that retrofitting a plant is very expensive. Several retrofitting projects have been explored but none have been found to be economically feasible.

03:01:10 REP. DRISCOLL asked if Mr. Schnake foresees any regulatory or statutory problems with the pipeline. Mr. Schnake said that Denbury is just beginning to explore the issues regarding Montana's regulatory system but that it has had good success in other states. He said that Denbury is meeting with state officials in order to understand what the State needs and to get guestions answered.

PUBLIC COMMENT

No public comment was given.

UPDATE ON IMPLEMENTATION OF SB 498 AND BOG COMPOSITION

- 03:03:13 Tom Richmond, Administrator and Petroleum Engineer, Montana Board of Oil and Gas Conservation (BOG), discussed a carbon dioxide sequestration update and proposed EPA regulations (EXHIBIT 7).
- O3:17:42 SEN. JACKSON asked at what depths was water found and of what quality it was. Mr. Richmond said that water quality varies throughout the state, depending on the outcropping and geological sequencing. Certain wells are saltwater but most of the wells are considered fresh water. The depth of the wells can be 13,000 feet or deeper.
- 03:20:30 SEN. JACKSON asked if there is legislation that ETIC should be considering in the 2011 session regarding this issue. Mr. Richmond said no and that after the EPA issues its final rule, an assessment would be made on what is needed. He said an opinion is needed from the Attorney General regarding authority to implement the program.
- O3:22:38 SEN. ERICKSON asked Mr. Richmond to keep the ETIC updated regarding the class change in injection wells. He said that he has concerns about this because it is so different from what the BOG has dealt with in the past. He asked if more particular expertise on the Board or on staff may be needed to deal with this new process. Mr. Richmond said that the BOG discussed this and agreed that special expertise may be needed in this particular area but, after discussion, decided that the best use of BOG resources would be to pay for expertise on an "as needed" basis, rather than hiring additional full time staff.
- O3:28:12 SEN. ERICKSON asked that his statement be on the public record and said that if coal is to have a future in this state and country, then sequestration will be very important and we will need more monitoring and research than it is currently being given. He disagreed with the BOG's assessment that an "as needed" expert would be adequate to deal with carbon sequestration issues.
- 03:29:32 REP. BELCOURT said BOG sets the spacing requirements and asked about the BOG's responsibility and role in that issue. Mr. Richmond explained how the BOG deals with spacing and contested hearings. He said that the BOG tries to be as equitable and fair as possible.

Public Comment

No public comment was given.

OTHER BUSINESS

Approve minutes from January

03:34:24 REP. ANKNEY moved to approve the January 2010 meeting minutes. The motion passed on a unanimous voice vote.

Administrative Rules

03:35:01

Mr. Everts reported on two current sets of proposed rules regarding public utility executive compensation disclosure and on interconnection standards under a federal act.

Budget update

03:37:01

Ms. Nowakowski said that the ETIC has \$13,182, not including this meeting, remaining in its budget. She said hopefully that a 2-day meeting in July and a 1-day meeting in September could be held without going over budget. She said she would report to the members again in July. REP. DRISCOLL asked to change the July meeting date from July 29 and 30 to July 28 and 29; and to have the last ETIC meeting on September 10, 2010. It was agreed.

Discussion of July agenda

Ms. Nowakowski listed several suggestions received to date: a telecommunications panel, small hydropower and hydropower in general, an update from the Big Sky Carbon Sequestration Partnership, update on transmission projects (Mountain States Tie Line (MSTI) and Montana Alberta Tie Line (MATL), update on geothermal energy development, and a PSC update and draft legislation.

- 03:41:25 SEN. LARSEN asked to include a review of biomass and biochar and what is going on in Montana. Ms. Nowakowski said she is assisting the Environmental Quality Council (EQC) with its biomass study and would update the ETIC. She said she would also provide information on biochar.
- 03:42:32 SEN. ERICKSON asked if the agenda topics would include ETIC's potential draft legislation. Ms. Nowakowski said it would and explained the steps the draft legislation would take before being finalized by the ETIC at its September meeting.
- 03:43:57 SEN. JACKSON asked that the financial feasibility of biomass also be included in the information. Ms. Nowakowski said that the EQC has been studying that issue and that she would provide the information to the ETIC.

LUNCH BREAK

03:46:01 REP. DRISCOLL recessed the ETIC at 11:50 a.m. for lunch, to reconvene at 1 p.m.

SB 290 ENERGY POLICY DEVELOPMENT

05:07:21 REP. DRISCOLL reconvened the meeting at 1:12 p.m. Ms. Nowakowski said that the energy policy matrix provided before the meeting **(EXHIBIT 8)** was revised over the lunch hour to reflect the decisions made at the morning portion of the

meeting. She reviewed the changes in the revised energy policy matrix **(EXHIBIT 9)**. Ms. Nowakowski referred to an energy policy summary sheet listing the draft energy policy statements that ETIC members have agreed upon to date **(EXHIBIT 10)**. She asked the members to give her direction on how the committee wishes to proceed:

- Does the ETIC want to revise any of the 25 draft statements adopted so far?
- Once the statements are finalized, does the ETIC wish to incorporate the statements into Title 90 chapter 4, part 10, as energy policy? (would require a bill draft)
- If the decision is made to adopt the statements into law, would any of the statements require additional legislation?
- Are there any additional changes that need to be made to the *Montana Energy Blueprint* book **(EXHIBIT 3)**?

Ms. Nowakowski said that once all changes are made, all documents, reports, and bill drafts would go out for a public comment period. Comment will be reviewed at the July meeting and additional public comment will be taken.

- Ms. Nowakowski suggested that the easiest way to work through the energy policy statements would be to compare previous energy policy statements to the numbered items on the revised energy policy matrix (EXHIBIT 9). She said that changes or revisions could be made statement by statement.
- 05:15:53 It was agreed that discussion would begin by using SEN. LARSEN's first energy policy statement to increase the supply of low-cost energy with coal-fired generation (EXHIBIT 2).

Revised Energy Policy Matrix Statement 1. Montana is committed to supplementing energy needs with renewable energy sources while recognizing the value for existing coal-fired generation and its place in the Montana energy portfolio.

O5:16:23 SEN. ERICKSON said he liked SEN. LARSEN's statement (Increasing the supply of low-cost electricity with coal-fired generation - EXHIBIT 2) because it addresses costs. SEN. JACKSON said he liked it also but asked to strike, "Montana recognizes the global consensus that" and begin the sentence with "Carbon dioxide....". SEN. ERICKSON said he would go along with the change but that there is a global consensus regarding carbon dioxide.

Public Comment

D5:22:07

Leo Berry, Great Northern Properties, said that Great Northern owns large coal reserves in the state, so is very interested in Montana's energy policy. He said that the energy policy needs to incorporate Montana's existing statutes and suggested that the language be fairly broad. Mr. Berry referred to legislation passed in the 2007 session and said that the two pieces are major policy decisions but that they are not reflected in current statute. He said he worked with the Montana Petroleum Association (MPA) to draft language that would better reflect Montana energy laws and policies. Mr. Berry distributed copies of the draft language (EXHIBIT 11) and asked Dave Galt of the MPA to review it with the ETIC. He noted that their changes were indicated in the red type.

05:26:34 **Dave Galt, Montana Petroleum Association,** reviewed the provisions of the draft language.

Committee discussion and questions

- O5:28:27 SEN. ERICKSON said he has concerns about some of the language, particularly the last sentence on page 1 about biofuels. He explained his concerns. SEN. JACKSON agreed with SEN. ERICKSON's comment about biofuels. He suggested ending the sentence after the word "sources" and deleting "such as biofuels".
- Mr. Everts and Ms. Nowakowski reviewed existing statutory language in 90-4-1110, MCA, (transportation energy policy) and in 90-4-1111, MCA, (alternative fuels policy) and said that the language would likely take care of the concerns regarding transportation energy policy and renewable and alternative transportation energy sources, including biofuels. Ms. Nowakowski read aloud portions of 90-4-1110 and 90-4-1111, MCA. Ms. Nowakowski said that the statement did not have to be approved as a whole and could be discussed sentence by sentence.
- 05:37:35 SEN. JACKSON said that Mr. Galt's language eliminates his concerns regarding SEN. LARSEN's language and would still meet SEN. LARSEN's objectives. SEN. ERICKSON and SEN. JACKSON discussed the differences in language between SEN. LARSEN's and Mr. Berry's draft language.
- 05:38:23 SEN. JACKSON moved to approve Mr. Berry's proposed policy statement on increasing the supply of low-cost electricity. REP. DRISCOLL suggested that because the statement has to do with coal only, the entire third paragraph addressing oil and gas should be deleted. SEN. LARSEN agreed.
- 05:45:13 SEN. JACKSON amended his motion to end the policy statement at the end of the second paragraph (after the word, "independence"). The motion passed on a 4-3 voice vote. SEN. ERICKSON, SEN. LARSEN, and REP. DRISCOLL voted no.

Revised Energy Policy Matrix Statement 2. Continued research and pilot projects to convert coal into synthetic petroleum products, hydrogen, methane, and natural gas also may extend Montana's competitive advantage with coal well into the future.

05:47:29 It was agreed that the ETIC had already addressed this statement.

Revised Energy Policy Matrix Statement 3. The state supports an increase in oil and gas exploration and development to reduce the recent decline in Montana's production levels and, most importantly, to wean the nation off foreign oil.

05:48:28 REP. BELCOURT moved to replace the language with Mr. Berry's proposed language (third paragraph, beginning with, "The State of Montana" and ending with, "energy needs of Montana and the region".

- O5:48:58 SEN. ERICKSON said he was concerned that Mr. Berry's language was presented at such a late date because there have been many opportunities to testify and participate earlier in the process, particularly since the public has not had the opportunity to study the language. He said he is unsure what it means to pass the language and that he is most concerned about changes in tax structure. REP. DRISCOLL said that all statements will be put out for public comment until the end of July and that the ETIC would revisit each topic before approving anything for a bill draft proposal. Members expressed their opinions and concerns.
- 05:56:37 REP. BELCOURT's motion passed on a 5-2 voice vote. SEN. ERICKSON and REP. DRISCOLL voted no.

Revised Energy Policy Matrix Statement 4. Montana encourages the development of educational programs that prepare the workforce for creating and obtaining jobs in an emerging renewable energy economy.

- O5:57:12

 SEN. JACKSON moved to approve the statement. He asked to use Mr. Berry's language on promoting alternative energy systems, except for the last sentence regarding development of biofuels. SEN. ERICKSON made a substitute motion to use SEN. LARSEN's language on promotion of alternative energy systems. He discussed the Montana Renewable Power Production and Rural Economic Development Act and said it is an important act and that Montana needs to move ahead on alternative energy. SEN. LARSEN agreed with SEN. ERICKSON's comments and would support the substitute motion.
- 06:01:21 REP. KLOCK said what could happen if the targets in the Act prove to be unattainable by 2025. SEN. LARSEN said the target is simply a goal and that there are many years to get there. He said he plans to introduce a study bill on hydropower in the 2011 session to make sure that hydro capabilities are maximized.
- 06:02:24 REP. ANKNEY said hydropower is cheap electricity and that there should be incentives for increasing hydropower and new technology. He said it should not be restricted in order to promote wind energy, which he believes is not as clean or green as hydropower.
- 06:03:36 SEN. JACKSON agreed that hydropower should be counted as green energy. He explained why it is not being counted and said that Governor Schweitzer vetoed a bill in the 2009 Legislature because he strongly supports the development of wind power. He said that his opinion is that the green energy mandates, as currently written, will be a "backbreaker".
- O6:05:19 SEN. LARSEN said it is policy that is being development, not law; and that it will serve as a guide for Montana's energy development. SEN. ERICKSON said he would like to see the original reasons why the Act was approved. He asked Mr. Everts to read the language. REP. DRISCOLL referred members to the bottom of page 4 of the revised energy policy matrix (EXHIBIT 9). The members studied the language. REP. DRISCOLL noted that HB 455 was passed in 2005 and that

NWE is almost meeting the standard now, even though it is not required until 2015. She said that she does not think the requirements are too much to achieve in ten more years. She said she liked the statement and also supports putting hydropower into the renewable portfolio, so long as hydro is not the focus.

- O6:10:24 SEN. JACKSON said he is concerned about keeping rates low and that the targets are very aggressive. SEN. LARSEN agreed that rate increases have been a problem but that deregulation is a main cause of that. He said that he served as a member of NWE's stakeholder group and that NWE is aggressively seeking out alternative energy sources and that other legitimate alternative energy sources need to be sought out. REP. BELCOURT asked how the stakeholder group determined what the targets should be. SEN. LARSEN explained and said that NWE officials never expressed any hesitation or doubt about the achievability of the target numbers. REP. DRISCOLL said she thought that federal mandates will be implemented within a few years.
- 06:15:40 SEN. ERICKSON's substitute motion failed on a 4-4 voice vote, REP. KLOCK, REP. ANKNEY, SEN. JACKSON, and SEN. BLACK voted no (proxy by Ankney).
- O6:16:23 After discussion on whether a statement promoting alternative energy systems would be included in the energy policy statement, REP. KLOCK moved to accept the language for statements 4 through 7 on the energy statement matrix. The motion passed on a unanimous voice vote.

Revised Energy Policy Matrix Statements 9 - 13.

- O6:18:48 SEN. LARSEN asked to insert "affected" before "stakeholders" in the last line on page 1 of his energy policy summary (EXHIBIT 2). SEN. ERICKSON referred to testimony given by concerned citizens at a previous meeting about proposed transmission lines and said more outreach is needed on this issue. He said that adding the word "affected" will address his concern.
- 06:21:16 REP. ANKNEY referred to discussions he participated in at a recent meeting in Washington D.C. addressing transmission lines, wind energy, and the need for power in California. He said he got the impression that the federal government is not opposed to using eminent domain to get power lines to California so Montana may need to be more aggressive in negotiating with landowners.
- O6:23:20 SEN. JACKSON suggested adding "stakeholders" after "affected" in statement 11. SEN. LARSEN moved to accept his language as a substitute motion. The motion passed on a unanimous voice vote.

Revised Energy Policy Matrix Statements 14-17

06:26:32 SEN. ERICKSON moved to substitute SEN. LARSEN's language in place of the statements listed on the matrix. After a brief discussion, the motion passed on a unanimous voice vote.

Revised Energy Policy Matrix Statement 18. In pursuing energy development on state lands, the state must continue to weigh its overall management responsibilities, as mandated by the Montana Constitution and state law.

- REP. KLOCK moved to approve the statement as part of the energy policy statement. The members discussed the motion briefly. SEN. ERICKSON said this is already current state law. SEN. JACKSON read three policy statements from his energy policy document (Appendix G, EXHIBIT 3) and said the third statement would create best management practices. He said if there is any interest, the statements could be added. REP. DRISCOLL said that the motion at hand must be voted on first. The motion passed on a 6-1 voice vote, REP. DRISCOLL voted no.
- O6:32:05 SEN. ERICKSON agreed that best management practices would be beneficial but said he could not support weakening one more area of the Montana Environmental Policy Act (MEPA). SEN. ERICKSON moved to approve the third statement to establish a set of best management practices for energy projects on state lands. The motion passed on a unanimous voice vote.
- 06:35:32 **BREAK** at 2:40 p.m.
- REP. ANKNEY moved to reconsider SEN. LARSEN's energy policy 06:53:28 statement on classifying capacity expansions to existing hydropower facilities under the "Montana renewable Power Production and Rural Economic Development Act" (EXHIBIT 2, page 1), as is. SEN. JACKSON said he could not vote for the motion unless he had some reassurance from NWE that the goals would be easily achievable and that the ratepayers would not negatively impacted. REP. DRISCOLL suggested that SEN. JACKSON talk with NWE after the meeting about his concerns and that the issue could be revisited at the next meeting. Mr. Everts said a reconsideration motion is not necessary in this instance and suggested that REP. ANKNEY move to add that paragraph to the language already adopted from SEN. LARSEN's statement. REP. ANKNEY withdrew his motion and moved to include the last paragraph in SEN. LARSEN's statement on promoting alternative energy systems. He read the statement aloud. The motion passed on a 6-1 voice vote, SEN. JACKSON voted no.
- 06:57:16

 REP. BELCOURT asked to revisit policy statements 9-13 (transmission). He referred to SEN. LARSEN's statement on rebuilding and extending transmission lines (second paragraph, second sentence). REP. BELCOURT moved to stop the second sentence after the words "and local governments" (top of page 2) and delete the remainder of the sentence. SEN. ERICKSON suggested that "in the preliminary stages" should remain in the statement. REP. BELCOURT agreed to leave them in. SEN. ERICKSON asked how it would be determined who an "affected" stakeholder would be. Ms. Nowakowski said the term is not currently defined unless under MEPA but thought that "stakeholders" would be determined in the scoping process.

07:00:15 SEN. JACKSON supported the motion, saying it is not appropriate for conservation groups to be given the same standing as a governmental agency. SEN. ERICKSON did not. He said that when some organizations get left out of preliminary discussions, it often results in a poor end product. The motion passed on a 5-2 voice vote, SEN. ERICKSON and SEN. LARSEN voted no.

Revised Energy Policy Matrix Statements 19-25

- 07:03:48 SEN. ERICKSON moved to approve energy policy statements 19-25, as written. The motion passed on a unanimous voice vote.
- 07:06:17 Ms. Nowakowski summarized the energy policy decisions made by the ETIC:
 - Berry energy policy summary (EXHIBIT 11, page 1) adopted everything from word "increasing" through "region";
 - revised energy policy matrix statement (EXHIBIT 9) adopted statements 4 7;
 - SEN. LARSEN's energy policy statement (EXHIBIT 2, page 1) adopted third paragraph in "Promoting alternative energy systems" regarding classification and expansion of existing hydropower facilities;
 - SEN. LARSEN's energy policy statement (EXHIBIT 2, pages 1 and 2) adopted everything under "Rebuilding and extending transmission lines" with the following exceptions:
 - added word "affected before "stakeholders" (bottom of page 1), and
 - struck "and conservation organizations" (top of page 2);
 - SEN. LARSEN's energy policy statement (EXHIBIT 2, page 2) adopted entire "Wind integration" statement;
 - SEN. LARSEN's energy policy statement (EXHIBIT 2, page 2) on maximizing state land use for energy generation and included additional language to create best management practices for energy development on state lands; and
 - revised energy policy matrix statement (EXHIBIT 9) adopted statements 19-25.
- 07:08:51 Ms. Nowakowski referred the members to 90-4-1001, MCA, State Energy Policy Goal (EXHIBIT 9, middle of page 5) and said the ETIC must decide if it wants to strike the first paragraph and add in the adopted policy statements.
- 07:09:53 SEN. ERICKSON asked Ms. Nowakowski to integrate the ETIC policy statements with the current language. Ms. Nowakowski said that the current energy policy is general and the ETIC policy statements are more specific. She suggested keeping the beginning of the first sentence "It is the policy of the state of Montana to", strike the remainder of that sentence, and add in all of the statements adopted by the ETIC.
- 07:13:01 The members discussed how the statute should be worded. SEN. JACKSON moved that staff draft a bill to incorporate the energy policy statements as approved by the ETIC into the existing statutory language while preserving the existing language. The motion passed on a unanimous voice vote.
- Ms. Nowakowski referred the ETIC to 90-4-1003, Revised Energy Policy Development (EXHIBIT 9, page 5) and asked if the members to discuss if it wishes to revise energy policy every interim or change to an "as needed" basis. SEN. JACKSON thought that it should remain on an interim basis. REP.

DRISCOLL said that she would prefer it be on an "as needed" basis because it could allow the ETIC to address other issues in interims in which energy policy revision was not being done. Ms. Nowakowski explained how the language would be changed and said the changes could allow each ETIC to decide if energy policy revisions are needed and what amount of time to devote to it. SEN. ERICKSON moved to draft language to change the language to include "as needed". The motion passed on a unanimous voice vote.

- 07:20:07 Ms. Nowakowski asked if there is other legislation that the members wish to pursue. REP. ANKNEY said that there may not be time to consider other bills, considering all of the public comment and work remaining on the energy policy.
- 07:21:55 SEN. JACKSON said he is considering a bill that would facilitate people putting in heat pumps where a well is used. He said it would fit under alternative energy systems. He said he would provide details and said he would like to facilitate the process of getting a water right approved for such a well.
- 07:23:05 SEN. ERICKSON asked SEN. JACKSON about his best management practices suggestion and if that should be a committee bill. SEN. JACKSON said that he has spent a great deal of time doing best management practices for people who live near water. He explained further.
- 07:24:59 Ms. Nowakowski asked members to approve the "Montana's Energy Blueprint" book (EXHIBIT 3). She asked if there were any additional changes and feedback. She said it would be put out for public comment after changes have been made. SEN. JACKSON thought the members should continue to study the draft report because of the amount of information in the report.
- 07:29:11 REP. DRISCOLL suggested that the title of the report be changed. The members discussed several possible titles. Ms. Nowakowski suggested, "Montana's Energy Policy Review: A Look at Existing Energy Policies and Suggested Revisions. It was agreed. Ms. Nowakowski said the draft will be available for public comment until the July meeting. The ETIC will approve any additional changes at the July meeting. After final approval, it will be printed and distributed to the full Legislature.
- O7:31:43 SEN. ERICKSON referred to page 22 (coal energy in Montana) of the draft report and asked to add language regarding the underground mining going on in the Roundup mine and the great quality of the coal. SEN. ERICKSON thanked staff for the good work. He said it is a complicated process but that "it is nice to see where we're going". SEN. JACKSON moved to place the draft report put out for public comment. The motion passed on a unanimous voice vote.
- 07:34:10 **BREAK** for 10 minutes.

UPDATE ON "CALL BEFORE YOU DIG"

07:44:57 Bill Squires, Blackfoot Telecommunications, Missoula, and President.

Board of Directors, Montana Telecommunications Association (MTA), said that he was filling in for Geoff Feiss. He said that Dale Schultz, NWE, Cary

Hegreberg, Montana Contractor's Association, and Chairman Jergeson, PSC, were all present and available for questions. Mr. Squires discussed a letter from the United States Department of Transportation to the Montana Public Service Commission regarding proposed rules from the Pipeline and Hazardous Materials Safety Administration (PHMSA) (EXHIBIT 12). He said that the proposed rules are what prompted the workgroup to come together to strengthen the incentive to enforce Montana's "one call" laws, in the hope that federal mandates can be avoided. He noted that Montana has not yet passed PHMSA standards. Mr. Squires provided a document that included Montana's one call law, the nine elements of the proposed federal rules, the stakeholders working together and contact information for the workgroup (EXHIBIT 13). He said the ETIC would be updated at its July meeting also. Mr. Shultz said the workgroup plans is working toward consensus legislation and would like the ETIC's support.

07:55:54 REP. BELCOURT said he would like to have more clearly defined responsibilities for enforcement in the legislation.

PUBLIC COMMENT

No public comment was given.

PUBLIC COMMENT ON MATTERS UNDER ETIC

07:59:25

Bonnie Lorang, General Manager, Montana Independent
Telecommunications System (MITS), said that informational materials were
provided in the meeting packets (EXHIBIT 14) and contact information for
Montana's Congressional delegation (EXHIBIT 15). She updated the ETIC on the

status of the federal stimulus funding to expand broadband internet access in Montana and MITS' position on the use of that funding **(EXHIBITS 16 and 17)**.

08:00:54 **Gary Wiens, Montana Electric Cooperatives Association (MECA),** discussed the inclusion of #8 concerning the RPS expansion in the energy policy. He said it has language that the cooperatives are very concerned about. He discussed the concerns and said he did not believe the ETIC intended the renewable portfolio standard (RPS) to apply to the smaller cooperatives but that it does.

INSTRUCTIONS TO STAFF

08:03:09 With no further business before the Energy and Telecommunications Interim Committee, REP. DRISCOLL adjourned the meeting. The next meeting is scheduled for July 28 and 29, 2010, in Helena.