Service Date: February 26, 2014

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER OF the Public Service Commission's Investigation into Electric and Natural Gas Universal System Benefits Programs and Funding	))))	REGULATORY DIVISION DOCKET NO. N2013.4.29

REPORT ON INVESTIGATION

Background

Regulated electric and natural gas utilities have been required by state law since 1997 to establish universal system benefits (USB) programs. §§ 69-8-402 and 69-3-1408, MCA. Regulated electric and natural gas utilities recover the costs of their USB programs through Public Service Commission-approved USB charges on their customers' monthly utility bills. §§ 69-8-402(2) and 69-3-1408(2), MCA. Electric USB programs are defined as "public purpose" programs for: "(a) cost-effective local energy conservation; (b) low-income customer weatherization; (c) renewable resource projects and applications, including those that capture unique social and energy system benefits or that provide transmission and distribution system benefits; (d) research and development programs related to energy conservation and renewables; (e) market transformation designed to encourage competitive markets for public purpose programs; and (f) low-income energy assistance." § 69-8-103(13), MCA. For electric utilities, USB charges are established to ensure "continued funding of" and "new expenditures for" USB programs. § 69-8-402(1), MCA. The funding level for electric utilities' USB programs must be at least 2.4% of those utilities' 1995 annual retail sales revenue, and at least 17% of that amount must be used to fund low-income programs.
§ 69-8-402(2) and (5), MCA.

Natural gas USB programs are defined in statute as "public purpose programs for cost-effective local energy conservation, low-income energy bill discounts, low-income weatherization, and emergency low-income energy bill assistance." § 69-3-1402(15), MCA.

Examples of acceptable USB programs that are specified by Commission rule are Energy Share and the Low Income Energy Assistance Program (LIEAP). ARM 38.5.7020(3). A natural gas utility's minimum annual funding requirement for USB low-income programs is 0.42% of the utility's annual revenues for the previous year. § 69-3-1408(2), MCA. The Public Service Commission (Commission) adopted by administrative rule a requirement that gas utilities spend at least 1.12% of their annual gas revenues on USB programs, of which at least .42% must be applied to low-income weatherization and bill assistance. ARM 38.5.7020(2). The Commission may adjust the 1.12% amount if a utility demonstrates a good cause to do so. ARM 38.5.7021(3).

NorthWestern Energy's (NorthWestern's) monthly residential electric USB charge is currently set at $0.001334 per kWh; its monthly residential gas USB charge is currently set at $0.0161585 per therm. The funds collected by NWE's electric and gas USB charges are allocated to the electric and natural gas USB public purpose categories as directed by the Commission in Docket No. D2004.7.99, Order No. 6679e.

Montana-Dakota Utilities Co.'s (MDU's) monthly electric residential USB charge is currently set at .1566¢ per kWh; its gas residential USB charge is currently set at $.0655 per dekatherm. MDU funds its gas USB programs at a target level of 0.48% of the prior year's annual revenue and not less than 0.42%. *Notice of Commission Action Approving Increased Universal System Benefits Charges*, Docket No. D2006.1.2, January 5, 2007.

Energy West Montana's (EWM's) gas USB funding requirement is 1.25% of its annual normalized revenues pursuant to Order No. 6719b in Docket No. D2005.12.177. EWM's monthly gas residential USB charge is currently set at $0.01132 per ccf.

<u>Notice of Investigation and Request for Comments</u>

On May 1, 2013, the Commission issued a *Notice of Investigation and Request for Comments* (Notice) regarding regulated utilities' electric and natural gas universal system benefits (USB) programs and funding. The Commission stated that it was prudent and timely to undertake a review of its USB policies. The *Notice* requested written comments generally on regulated utilities' USB programs, funding, and charges as well as proposals for USB policy changes that the Commission might consider. In addition, the Commission sought comments on the following specific issues:

(1) Whether it is appropriate for USB programs to include or emphasize revolving, continuous assistance as opposed to one-time assistance.

(2) Whether natural gas and/or electricity conservation and energy efficiency programs should continue to reside in both the USB portfolio and the demand-side management (DSM) energy supply portfolio.

(3) The cost-effectiveness of USB programs that are intended to produce energy savings and conservation.

(4) Whether the lost revenue adjustment mechanism (LRAM) should apply to statutorily mandated USB programs.

(5) Whether natural gas and/or electricity USB funding is equitably disbursed (e.g., are customers in towns served by two separate utilities with USB programs, such as in Billings, Kalispell and Great Falls, receiving more or less USB benefits than customers in towns served by one utility with split operating divisions, such as in Helena and Missoula?).

(6) Whether the Commission should amend ARM 38.5.7020(2), which requires natural gas utilities to spend at least 1.12% of their previous year's gas revenues on USB programs, to reduce the funding requirement to the statutory minimum funding level of .42% of the previous year's gas revenues.

(7) Low-income bill assistance. State law requires an allocation of natural gas USB funds to low-income bill discounts and emergency low-income bill assistance and an allocation of electric USB funds to low-income energy programs. Given the decline in natural gas rates, should the Commission consider revisiting the allocations of gas USB funds that are allocated to utilities' low-income discounts and other forms of bill assistance? Regarding electric USB funds, what are the current USB-funded "low-income energy programs" and what changes or additions to those programs should the Commission consider?

The Commission received comments from NorthWestern, MDU, the Montana Consumer Counsel (MCC), the Large Customer Group (LCG), the joint comments of eight Missoula City Council members and the Missoula Energy & Climate Team (Missoula City Council Members), and the joint comments of Energy Share of Montana, State Association of Human Resource Directors, Montana Environmental Information Center (MEIC), Natural Resources Defense Council, NW Energy Coalition, and Renewable Northwest Project (Energy Share, et al.). With the exception of MCC's opposition to the LRAM, the commenters generally supported continuation of the Commission's current USB policies.

Commission staff summarized the general comments and responses to the specific questions in a memorandum to the Commission dated July 25, 2013. The memorandum is appended to this Report as Attachment 1.

At a work session on July 30, 2013, the Commission discussed the written comments and decided to hold a roundtable discussion with interested persons to further address USB issues, including specifically the following issues: (1) the efficacy and cost-effectiveness of existing USB programs; (2) low-income USB programs and policies; (3) should the PSC adopt a policy of more USB program uniformity among regulated utilities' USB programs? (4) is there USB program coordination between utilities with overlapping service territories? (5) which USB programs best serve the statutorily-required "public purposes"? and, (6) should a lost revenue adjustment mechanism apply to USB programs, which are mandated by statute?

On October 22, 2013, the Commission issued a *Notice of Roundtable* inviting interested persons to join in an additional discussion of USB issues. The roundtable was held November 14, 2013, and was attended by representatives from: NorthWestern, MDU, EWM , MCC, the LCG, the state Department of Public Health and Human Services, Energy Share of Montana, the State Association of Human Resource Directors, District XI Human Resource Council, Montana Environmental Information Center (MEIC), Montana Renewable Energy Association, Natural Resources Defense Council, Renewable Northwest Project, and NW Energy Coalition.

Commission staff summarized the participants' comments on the six specific USB issues identified in the roundtable notice in a memorandum to the Commission dated December 12, 2013. The memorandum is appended to this Report as Attachment 2.

<u>Conclusion</u>

The Commission appreciates the willingness of the many commenters and roundtable participants to share their perspectives and comments on USB issues. After consideration of all the comments and discussion, the Commission concludes this investigation by listing below the possible USB policy options that the Commission may decide to address in its legislative agenda, in utility-specific proceedings before the Commission, or by administrative rulemaking:

<u>Potential legislative options:</u>

- Exempt small utilities (e.g., Avista, Black Hills Power) from the USB requirement.
- Set an expenditure limit for USB natural gas programs using a formula (e.g., percentage of previous year's retail sales).
- Eliminate renewable energy as a USB public purpose.
- Eliminate the option to self-direct USB funds for large customers.
- Seek repeal of the USB statutes.

<u>Potential administrative options:</u>

- Develop a process that removes the need for a regulated utility to submit an annual USB review filing if no significant USB changes are proposed by utility. (This idea is intended to reduce costs to utilities for the Commission review process.)
- Require an energy audit customer to pay part of the energy audit cost, perhaps on the basis of a sliding income scale.
- Require a customer of any USB program to pay part of the program cost.
- Investigate the use of a non-utility third party to administer USB programs.
- Review the LRAM mechanism in utility-specific cases.

BY THE MONTANA PUBLIC SERVICE COMMISSION

W. A. (BILL) GALLAGHER, Chairman
BOB LAKE, Vice Chairman
KIRK BUSHMAN, Commissioner
TRAVIS KAVULLA, Commissioner
ROGER KOOPMAN, Commissioner

ATTACHMENT 1

MEMORANDUM

To:	Commissioners, Justin Kraske, Bob Decker, Jason Brown
From:	Kim Moran and Kate Whitney
Date:	July 25, 2013
Re:	Docket No. N2013.4.29 – Electric and Natural Gas USB Investigation

On May 1, 2013, the Public Service Commission (Commission) issued a *Notice of Investigation and Request for Comments* (Notice) regarding regulated utilities' electric and natural gas universal system benefits (USB) programs and funding. The Notice provided USB background information and requested comments in general and on eight specific issues pertaining to USB policy changes that the Commission might consider. On June 21, 2013, the Commission received comments from NorthWestern Energy (NWE), Montana-Dakota Utilities Co. (MDU), Montana Consumer Counsel (MCC), the Large Customer Group (LCG), the joint comments of eight Missoula City Council members and the Missoula Energy & Climate Team (Missoula City Council Members), and the joint comments of Energy Share of Montana, State Association of Human Resource Council Directors, Montana Environmental Information Center, Natural Resources Defense Council, NW Energy Coalition, and Renewable Northwest Project (Energy Share, et al.)

Summaries of the general comments and responses to the specific questions follow.

General comments

<u>NWE</u>

NWE provided legislative and regulatory background leading to the establishment of mechanisms to ensure "continued funding of" and "new expenditures for" NWE's USB programs (§ 69-8-402(1), MCA).

Current USB program funding levels are appropriate for the most part. Most activities that result in the acquisition of cost-effective energy efficiency have been moved out of USB and are included in NWE's demand-side management (DSM) program portfolio which is funded through electric and natural gas supply rates.

<u>MDU</u>

MDU provided legislative and regulatory background that differentiates the electric and natural gas USB programs and USB charges. According to MDU, a regulated natural gas utility is required to have Commission-approved USB programs (§ 69-3-1408(1), MCA), while a regulated electric utility is not required to have Commission-approved USB programs (§ 69-8402(2), MCA). Because MDU succeeded in getting itself exempted from the 1997 legislation governing the restructuring of electric and natural gas utilities, and because the mandatory nature of USB charges stemmed from that legislation, the Commission does not have approval jurisdiction over MDU's USB programs. It is the Montana Department of Revenue, and not the Commission, which determines qualifying electric USB programs (§ 69-8-404, MCA).

Generally, MDU believes the Commission should resist any effort to impose uniform USB programs upon its jurisdictional natural gas and electric utilities.

<u>Energy Share, et al.</u>

USB programs benefit all customers. Cost to ratepayers is modest. The monthly cost for a typical residential electric customer is: $1, NWE, and $1.17, MDU. The monthly cost for a typical residential natural gas customer is: $1.62, NWE; 65 cents, MDU; and 84 cents, Energy West. Montana law identifies the public purpose programs that regulated utilities must provide and sets minimum funding levels. Utilities' funding for low-income services exceeds the minimum levels.

All utility customers benefit from USB programs because: they reduce costs related to shutoffs and bill collection; enabling customers to continue utility service spreads utilities' fixed costs among more customers, which reduces rates to all customers; conservation, market transformation and renewables development programs foster less expensive/less risky energy sources that help to reduce bills and enhance grid stability.

<u>LCG</u>

The USB program as it exists today achieves the statutory goals of ensuring continued funding of and new expenditures for the specific USB programs (§ 69-8-402(1), MCA). LCG does not recommend any changes. USB programs should be efficient, avoid unnecessary bureaucracy, provide direct benefits to those who need it, and be funded fairly. LCG supports the current statutory framework that applies to large customers.

<u>Missoula City Council Members</u>

The commenters support continuation of current USB program, which has benefited Missoula's residents, businesses and community projects.

Comments on the specific issues identified in the Notice

1. Is it appropriate for USB programs to include or emphasize revolving, continuous assistance as opposed to one-time assistance?

<u>NWE</u>

Yes. NWE's USB programs should and do include both.

<u>MDU</u>

It depends. Each utility should make this determination based upon its particular needs and USB program costs.

<u>MCC</u>

MCC recommends the Commission maintain the continuous assistance model for USB low-income energy assistance programs. These programs historically have been funded on a continuous basis, including for years prior to enactment of the statutory USB mechanism. The main purpose of the statutory USB mechanism was to ensure these programs would continue to exist after public utility restructuring.

Energy Share, et al.

USB programs do not emphasize continuous assistance; rather, they were designed and have evolved based on the specific needs and characteristics of each USB program. Low-income discounts are the only USB programs that are "continuous" (if the customer continues to meet eligibility requirements). The customer group receiving the discount is not a static group; customers move into and out of eligibility for the discount. Other USB programs are one-time only, such as Energy Share's one-time emergency bill assistance (or up to a lifetime maximum of $700), or NWE's energy audits.

Missoula City Council Members

It is appropriate for USB programs to include revolving continuous assistance for deserving projects or individuals.

2. Should natural gas and/or electricity conservation and energy efficiency programs continue to reside in both the USB portfolio and the demand-side management (DSM) energy supply portfolio?

NWE

Yes. NWE's electricity and natural gas conservation and energy efficiency programs that achieve energy savings that are less than the utility's avoided supply cost are appropriately included in the DSM energy supply portfolio. Some public purpose programs previously included in the DSM portfolio, such as low-income weatherization and broad-based residential energy audits did not necessarily yield cost-effective energy savings on a pure avoided cost basis. Consequently, with the implementation of USB programs in the late 1990s, the Montana Power Company transitioned these programs into the USB program portfolio consistent with related statutes, administrative rules, and Commission orders.

MDU

Yes. The Commission cannot lawfully determine that conservation measures cannot be part of an electric or natural gas utility's USB programs, as they are statutorily defined as qualifying USB programs. This does not equate to a mandate that a utility must have these programs.

MCC

Yes. Section 69-8-103(32), MCA, permits "cost-effective local energy conservation" USB programs. MCC agrees with current policy that cost-effective energy efficiency measures belong in a utility's supply resource portfolio while non-cost-effective energy efficiency measures belong in the USB portfolio.

Energy Share, et al.

Yes. The PSC determined in 2005 that cost-effective conservation and energy efficiency programs would be evaluated along with other electricity supply resources and their costs recovered in rates. Other conservation and efficiency programs that do not meet cost-effectiveness tests but provide public purpose benefits as specified by the USB statute are funded by USB. This policy should not be changed without a compelling reason to do so.

Missoula City Council Members

Yes, natural gas and electric conservation and energy efficiency programs should continue to reside in both the DSM and the USB portfolios.

3. The cost-effectiveness of USB programs that are intended to produce energy savings and conservation.

NWE

USB-funded programs that target energy conservation may not be cost-effective on a purely avoided supply cost basis; however, they further other important public policy objectives in Montana (*see* list of qualifying USB activities at ARM 42.29.106). Many of NWE's customers benefit from the USB energy audit program. A DSM impact and process evaluation conducted by SBW Consulting, Inc. found that the natural gas funded portion of this program was cost-effective on an avoided cost basis. The energy audit program is foundational to NWE's DSM efforts, particularly in the residential sector, and contributes to the overall performance of the DSM programs.

MDU

To the extent that least-cost planning is designed with a cost advantage for conservation compared to supply-side resources, there may be a role for including some conservation or aspects of conservation in USB programs.

MCC

Section 69-8-103(32) includes both cost-effective local energy conservation and low-income weatherization in the definition of USB programs. Cost-effective conservation measures are currently included in utilities' resource portfolios. Low-income weatherization programs may not always be cost-effective, but it is legislative public policy to include them as USB programs.

Energy Share, et al.

If NorthWestern's electric on-site audit program, which usually is not cost-effective, is the USB program that prompted this issue, it should not be judged in isolation. It is the gateway to cost-effective NWE programs. Energy audits are funded by both natural gas and electric USB funds, and, rather than arbitrarily attributing audits' energy savings to either natural gas or electric customers, Energy Share et al. recommend evaluating the programs on a combined basis. This change should result in an improved cost-effectiveness test result for the electric audit program since natural gas audits meet the cost-effectiveness test.

4. Should the lost revenue adjustment mechanism (LRAM) apply to statutorily mandated USB programs?

NWE

Yes. Consistency between public policy of Montana and direction by the Commission is critical. Montana statute mandates USB programs that effectively reduce NWE's revenues between rate cases. LRAM simply makes NWE financially whole with respect to such reductions during the interim. For the Commission to disallow LRAM would be inconsistent and unfair.

MDU

Yes. A properly designed LRAM should capture margin lost by any utility funded conservation program, including programs funded in whole or in part by USB charges.

MCC

MCC has consistently advocated that the LRAM should not apply to USB programs because USB programs are not part of a utility's supply resource portfolio and they are mandated by law. Any utility financial disincentive associated with reduced sales that the LRAM is meant to eliminate should be overcome by the USB statutory mandate.

Energy Share, et al.

They support the continued use of the LRAM for USB conservation activities for these reasons: the existence of the statutory mandate for a utility to acquire energy efficiency does not undermine the case for the LRAM; when a utility operates the energy efficiency program, the existence of the LRAM improves its commitment to and enthusiasm for the effort; and, preventing a utility from recovering its lost revenues associated with its USB programs will have adverse consequences.

5. Is natural gas and/or electricity USB funding equitably disbursed (e.g., are customers in towns served by two separate utilities with USB programs, such as in Billings, Kalispell and Great Falls, receiving more or less USB benefits than customers in towns served by one utility with split operating divisions, such as in Helena and Missoula)?

NWE

It depends. Relatively speaking, if all utilities' USB programs were similarly administered and funded, then in split service territories natural gas and electric USB funding would probably be equitably disbursed. On average, NWE's customers in split service territories tend to receive lower levels of NWE's USB funding than its customers in areas where it provides both electric and natural gas service. To the extent inequities exist in split service territories, a remedy may lie in developing uniformity of USB programs across all utilities.

MDU

No equity issues are associated with differing USB programs or USB charges between utilities. USB programs are, and should continue to be, designed on a utility-by-utility basis.

<u>MCC</u>

MCC has no information on this topic and said study would have to be conducted to answer the question. Equitable geographic dispersion of USB funding has not been a consideration for USB programs.

<u>Energy Share, et al</u>.

The Commission addressed this concern in Docket D2004.7.99 et al., Order 6679(e), ¶ 88, which said that USB charges should be aligned with the USB program benefits in the territory from which the funding was received. USB programs already link USB costs and benefits.

6. Should the Commission amend ARM 38.5.7020(2), which currently requires natural gas utilities to spend at least 1.12% of their previous year's natural gas revenues on USB programs, to reduce the funding requirement to the statutory minimum funding level of .42% of the previous year's gas revenues?

<u>NWE</u>

No. Reducing the funding requirement applicable to all natural gas USB programs would substantially underfund the current low-income programs and would effectively eliminate funding for all other natural gas USB programs. Order No. 6679e set USB charges at levels sufficient to separately and fully fund the electric and natural gas USB public purpose programs.

<u>MDU</u>

It depends. The amendment would need to be structured and applied in such a way as to provide both the Commission and utilities the option of downsizing USB programs without mandating such.

<u>MCC</u>

MCC notes that 0.42% of the utility's previous year's gas revenues is the minimum funding level for low-income weatherization and bill assistance (*see* § 69-3-1408(2), MCA). Under the PSC's current rule, the amount remaining to be allocated to the other statutorilydefined gas USB programs (energy conservation, low-income bill discounts, low-income weatherization, and emergency low-income bill assistance) is an additional .7% of the utility's revenues. MCC recommends that USB funding remain at a level that is sufficient to continue to fund the same percentage low-income bill discounts that are available now.

<u>Energy Share, et al.</u>

No. A reduction in the natural gas USB rate to the statutory minimum required for lowincome funding would impermissibly result in no funding being available for the other natural gas USB public purposes identified in the natural gas USB statute (local energy conservation and renewable resource development). If the Commission reduces the rate, the overall gas USB programs will be under-funded, which could lead the Commission to reduce the gas low-income discount – a move the commenters assert would hurt customers, prompt more

USB proceedings, and probably result in having to use electric USB funds for gas USB programs. They note there is a symmetry between the amount of funds collected by the USB charge and the relative need for the discount.

Missoula City Council Members

No, reducing the gas USB funding to the minimum level would reduce the effectiveness of the program.

7. Low-income bill assistance.

a. Given the decline in natural gas rates, should the Commission consider revisiting the allocations of gas USB funds that are allocated to utilities' low-income discounts and other forms of bill assistance?

NWE

No. At current natural gas prices, even with the USB low-income discount program many NWE natural gas customers cannot afford to pay their bill.

MDU

No. The Commission should not seek to unilaterally downsize existing low-income bill assistance.

MCC and Energy Share, et al.

No. Because USB funding is tied to utility revenues, the funding level will go up and down with natural gas prices. As a result, low-income USB funding levels automatically increase when utility revenues increase due to increased gas prices and will decrease when gas prices fall.

Energy Share, et al.

No. There is a vital need in Montana to continue the present level of low-income bill assistance. The USB program works, it is appropriately balanced among the various public purposes, and USB implementation is sound.

Missoula City Council Members

No. The low-income need is still there even if gas prices have decreased.

b. Regarding electric USB funds, what are the current USB-funded "low-income energy programs" and what changes or additions to those programs should the Commission consider?

NWE

No recommended changes or additions. As directed by Order No. 6679e, the current electric USB low-income programs include the billing discount, weatherization, and Energy Share.

Funding for the USB low-income programs support a complete and critical energy assistance package for NWE's qualifying low-income customers. The low-income energy weatherization component provides long-term benefits, Energy Share funding provides one-time assistance for heating emergencies, and the low-income discount program provides immediate revolving billing assistance. Taken together, these programs further other important public policy objectives in Montana and are funded at appropriate levels.

MDU

No recommended changes or additions. Any changes to natural gas or electric USB programs and charges should occur on a utility-by-utility basis in accordance with existing law.

MCC

MCC has not reviewed all of the programs and their merits. It would require further study to adequately address their continued inclusion or exclusion from the USB portfolio.

Next steps:

1. Schedule an informal roundtable discussion with the commenters, or

2. Provide policy guidance to staff for inclusion in a draft final report on the investigation.

ATTACHMENT 2

MEMORANDUM

To:	Commissioners
From:	Kim Moran, Kate Whitney, Bob Decker, Dave Lofftus and Justin Kraske
Date:	December 12, 2013
Re:	Docket No. N2013.4.29 – Electric and Natural Gas USB Investigation Summary of November 14 roundtable discussion

On May 1, 2013, the Public Service Commission (Commission) issued a *Notice of Investigation and Request for Comments* (Notice) regarding regulated utilities' electric and natural gas universal system benefits (USB) programs and funding. The *Notice* provided USB background information and requested written comments in general and on eight specific issues pertaining to USB policy changes that the Commission might consider. On June 21, 2013, the Commission received comments from NorthWestern Energy (NWE), Montana-Dakota Utilities Co. (MDU), Montana Consumer Counsel (MCC), the Large Customer Group (LCG), the joint comments of eight Missoula City Council members and the Missoula Energy & Climate Team (Missoula City Council Members), and the joint comments of Energy Share of Montana, State Association of Human Resource Directors, Montana Environmental Information Center, Natural Resources Defense Council, NW Energy Coalition, and Renewable Northwest Project (Energy Share, et al.). Staff summarized the written comments in a memorandum to the Commission dated July 25, 2013. At a work session on July 30, 2013, the Commission discussed the written comments and decided to hold a roundtable discussion with interested persons on USB issues.

On October 22, 2013, the Commission issued a *Notice of Roundtable* inviting interested persons to join in a further discussion of USB issues, especially the six issues identified in the *Notice*. The roundtable was held November 14, 2013, and was attended by representatives from: NWE, MDU, Energy West Montana (EWM), LCG, state Department of Public Health and Human Services (DPHHS), Energy Share of Montana (Energy Share), State Association of Human Resource Directors (State HRD Association), District XI Human Resource Council (District XI HRC), Montana Environmental Information Center (MEIC), Montana Renewable Energy Association (MREA), Natural Resources Defense Council (NRDC), Renewable Northwest Project (RNP), and NW Energy Coalition. Summaries of the participants' comments on the six specific USB issues identified in in the roundtable notice and agenda follow.

<u>Issue #1: The efficacy and cost-effectiveness of existing USB programs</u>

Most of the roundtable participants provided comments on this issue. NWE explained it operates a variety of USB programs covering all the statutory public purposes. NWE strives for broad-based participation in its USB programs. NWE believes its USB programs are delivered efficiently with the help of its external partners. MDU and EWM do not operate any USB programs internally. MDU partners with the HRC and with Energy Share to conduct them and believes they are conducted efficiently. EWM partners with a local bank to provide a no-interest loan program for energy efficiency measures and with Energy Share. A consensus emerged from participant comments that the existing USB programs are being effectively and efficiently delivered to the targeted beneficiaries as a result of arrangements that have evolved and

improved since the establishment of USB programs by the Legislature. The utilities partner with other entities to efficiently and effectively administer and deliver a broad base of USB programs.

There was also a consensus among the roundtable participants that the determination of cost-effectiveness of USB programs goes beyond a simple economic cost-benefit test and energy-saving measurement. District XI HRC, Energy Share, NW Energy Coalition and MCC all asserted that there are public safety, social welfare and other societal benefits of USB programs, such as enabling customers to pay their bills and continuing to contribute to the utility's fixed costs, avoiding the system-wide costs associated with service disconnections, and preventing relocations due to shutoffs.

MCC and District XI HRC emphasized that the Commission should ensure that USB programs are operated in an efficient manner that minimizes costs.

MCC suggested that USB funding of renewable projects should be eliminated from the USB law because renewables are funded well and better by other laws. NWE commented that, if the idea of including renewables as a public purpose in the USB law was to "kick start" renewable energy in the state, then the objective has been achieved. MDU does not fund any renewable energy projects with USB funds and asserted that the USB law does not require MDU to fund renewables. According to MDU, the electric USB law was written to allow for unspent USB funds to be remitted to the state Department of Environmental Quality (DEQ) for renewable energy funding. NRDC disagreed with MDU's opinion and said the requirement to fund a renewables program out of USB is in the statute and the issue is to set the appropriate level of that funding.

Staff notes for the Commission's information that the state Department of Revenue lists by administrative rule the electric USB expenditures that are permitted in support of costeffective energy conservation. They include, but are not limited to: energy audits; water heater programs; lighting efficiency conversions; motor efficiency conversions; consumer conservation education; and demand-side management programs, among others (*see* ARM 42.29.106).

Issue #2 – Low income USB programs and policies

Roundtable participants were satisfied with the current low-income USB programs and policies and proposed no changes. The State HRD Association commented that USB programs are efficiently implemented, are achieving the goals of the USB laws, and are consistent with Commission direction. USB funding levels have developed over a long period of time with participation of the Commission and the various USB stakeholders. Energy Share agreed with these comments.

DPHHS emphasized the importance of low-income assistance in Montana, where 27% of households have incomes below 200% of the federal poverty level. USB funding of low-income bill assistance and weatherization programs is more important than ever now because of reductions in the federal funding for the Low Income Energy Assistance Program (LIEAP). According to DPHHS, federal funding for the Montana LIEAP weatherization program used to range from $3 to $5 million per year, but is just $676,000 this year. The federal grant for the Montana LIEAP bill assistance program was $30 million in 2009, but is $18 million this year. The average benefit for LIEAP bill assistance in Montana is $560 for the 2013-14 heating season. DPHHS explained that it is not true that a large, static group of the same customers comprises the recipients of the USB-funded bill discounts. Customers receive the bill discount for an average of three years and the turnover rate is about 30% per year as households move into and out of poverty.

LCG commented that, even though large customers may self-direct their USB dollars to public purposes such as energy efficiency measures from which they will directly benefit, many large customers choose to direct USB contributions as well to low-income programs such as Energy Share.

NWE believes its current USB funding and allocations provide a package of complete and critical assistance to low-income customers: bill discount, weatherization, and emergency bill assistance. In response to a commissioner question as to why natural gas low-income assistance funding levels are increasing while natural gas rates are decreasing, NWE explained that the number of customers eligible for LIEAP, and therefore for the natural gas bill discount, increased for a few years when DPHHS expanded LIEAP eligibility to more Montanans as a result of receiving additional funding through the American Recovery and Reinvestment Act. NWE said the numbers of eligible customers is now trending down.

MDU, EWM and NWE responded as follows when asked by a commissioner why utilities' USB charges might exceed what is required by law: (1) MDU charges only what the electric USB statute requires; (2) EWM's USB programs were established based on revenues at a time when gas prices were high and the programs established at that time still depend on the same level of USB funding; and (3) NWE's electric USB charge does not change and NWE's natural gas and electric USB program funding and allocations were set by the Commission in Docket D2004.7.99. NWE abides by the order in that docket. In addition, NWE has established a natural gas USB tracker mechanism as allowed by the natural gas USB law.

<u>Issues #3 and #4 (considered jointly at the roundtable): Should the PSC adopt a policy of more USB program uniformity among regulated utilities' USB programs? Is there USB program coordination between utilities with overlapping service territories?</u>

No participant recommended any changes to USB policies to encourage or require more program uniformity or program coordination. NWE had no position on the issue of program uniformity. On the question of coordination between utilities, NWE said such coordination presented many challenges and that NWE approached any opportunity with the fundamental questions of who benefits and who pays. NWE described its recent coordination effort with Flathead Electric Cooperative in which Flathead Electric utilizes NWE's energy audit contractors for the delivery of program literature and compact florescent light bulbs.

MDU does not seek USB program uniformity with NWE for two reasons: 1) uniformity is not statutorily required; and 2) NWE's higher rates (25% higher than MDU rates for natural gas; 20% higher for electricity) comprise an economic argument against any notion that MDU's USB rates and program budget should be commensurate with NWE's USB rates and budget. MDU would oppose any policy requiring program coordination among utilities. No customer or program partner of MDU has ever filed a complaint about MDU's USB programs.

EWM manages its USB programs with the belief that "simpler is better" and that interutility coordination of USB programs would add unwanted complexity to the utility's programs. Montana utilities already operate similar programs in several sectors, such as low-income discounts, Energy Share contributions, and weatherization. EWM urged the Commission to not change current USB policies.

In response to a commissioner's question as to whether energy consumers who utilized propane could obtain USB benefits, NWE responded that a customer of any single fuel could qualify for USB programs and that a propane consumer, if also an NWE electricity customer, could qualify. Energy Share responded that, because Energy Share receives unrestricted donations from individuals and institutions, Energy Share serves qualified beneficiaries utilizing any fuel, including propane.

Another commissioner asked if USB revenues were required to be spent within the utility service territories where the revenues originated. DHHS and MDU replied that a USB statute requires USB revenues that are reverted back to DPHHS or DEQ to be expended within the source service territory. Energy Share responded that some cooperatives that contribute to Energy Share require their funds to be utilized within the cooperatives' respective service territories and that Energy Share honors that requirement. The State HRD Association reiterated that USB reverted funds are being spent in the service territory from which they are collected as the statutory requirement for the DEQ and DPHHS. The Commission has in an earlier order reaffirmed that principle for utility practices with respect to the funds that they acquire.

Issue #5: Which USB programs best serve the statutorily-required "public purposes"?

MDU believes that utilities should be able to decide which programs work best for their situation because they have the best understanding of which programs work in particular areas. What works for MDU may not work for NWE and vice versa. Customers seem happy with the USB programs that are available; if it's not broken, let's not repair it.

MEIC stated it is hard to make an apples-to-apples comparison on which USB programs are better because they are very different programs that serve different purposes. Those purposes however, have been established to be important by statute. All USB programs have system wide benefits. Valuing them and comparing them individually is not effective; instead one should look at the system as a whole and whether they are operating to serve the purposes as outlined in statute.

Energy Share believes there is currently a good balance of USB programs that is working for the recipients, those who administer the programs, and the donors.

LCG said that when large customers self-direct their USB funds into energy efficiency at their facilities, there are at least two inherent advantages: (1) the ability to spend 100% of the dollars on the energy efficiency project; and, (2) the cost-benefit ratio of the dollars large customers spend on energy efficiency programs are at some of the highest levels as compared to residential programs because the larger customers typically have the benefits of economies of cost and scale.

NWE and MDU responded to a commissioner's question as to how to leverage USB funding better and to get more consumer buy-in by having an interest pay-down by a particular utility with the expectation that the consumer would have some sort of buy-in as well. NWE said it has tried a zero-interest loan in the past that was attached to the utility billing, but that program proved problematic. For example, NWE would receive partial payments, and then would have to try and apply that payment to part of the utility bill and part of the loan. NWE customers liked the program and utilized it; however, it caused issues internally for NWE. NWE would try something like this again if a bank would be willing to administer the program. MDU agreed with NWE's comments about the problems of operating such a program internally.

Issue #6: Should a lost revenue adjustment mechanism (LRAM) apply to USB programs, which are mandated by statute?

In NWE's opinion, the real issue is fairness. Under some USB programs the customer gets support for changes, then uses less energy, which further helps them. However, the utility that helped them loses income, which hurts the company. NWE characterized what a utility would have earned without providing conservation programs as a "steady-state" and USB programs as a departure from that steady-state. LRAM is a means of returning to that steady-state.

MDU supported NWE's position and said there is no requirement to have conservation programs as part of electric USB. They are voluntary and should be incentivized.

EWM said, by way of example, that if a utility weatherized 150 homes and, as a result, earned $4,500 less a year, the reduced earnings would be $22,500 over 5 years. This is serious money to EWM, but filing a rate case to recover it would cost the ratepayers $200,000 to $300,000 and would not be cost effective. LRAM provides a better way to accomplish this. District XI HRC stated that LRAM should apply to mandated USB programs to ensure that incentives align with public policy. The only programs that meet the cost-effectiveness standard are the conservation programs. Consider moving conservation programs to DSM and use USB funding for programs that are inherently not cost effective. The State HRD Association supported LRAM for USB because it is important to get the incentives right and these are revenues which utilities should recover.

MCC views LRAM as an extraordinary rate mechanism that is not justified for DSM, and certainly not for statutorily required USB programs. MCC has been historically skeptical of LRAM. NWE was a leader in developing conservation DSM programs as a resource before there was an LRAM. LCG supported MCC's position. If a utility is earning below its authorized rate of return, all issues together should be looked at together in a general rate case. LRAM is an example of single-issue ratemaking.

Next step(s)

The Commission has typically concluded its investigations by issuing a report on the investigation. The report would summarize the information obtained during the investigation and announce the Commission's conclusions and/or plans for taking action in future proceedings (such as through rulemaking or by identifying issues in contested cases).