

Appendix 1 (to The Shock of the New; November 20, 2000)

Chronology

The following are key events that have taken place during the 1999-2000 interim, beginning with the most significant prior occurrence, in the fall of 1998. (For a general accounting of the TAC's activities in the 1997-1998 interim, see the final report, which is available from Legislative Services Division or at the TAC website: http://leg.state.us/Interim_Committees/TAC. The Minutes, agendas, and staff reports for the most recent interim can also be downloaded from the website.)

◆ **October, 1998** - Announced sale of the Montana Power Company's generation assets for approximately \$760 million to Pennsylvania Power & Light Global Resources, which subsequently names its subsidiary operation PPL Montana. (The sale was completed in December of 1999.) In accordance with 69-8-210(2), MCA, the Public Service Commission approves MPC's proposal in its revised transition plan to enter into a contract with PPL Montana to purchase power for MPC's customers at a cost-based rate (negotiated at 22.25 mills). This contract will expire on June 30, 2002.

◆ **December, 1999** - Bonneville Power Administration issues Record of Decision regarding Standards for Service, rendering the Montana Electricity Buying Cooperative ineligible for Bonneville's least expensive power product (known as "preference power") because the MEBC does not and may not (under 35-19-101 et. seq., MCA) own distribution facilities--poles and wires. The MEBC later files an appeal in the 9th Circuit of U.S. federal Court and hopes to become qualified for preference and to serve as a default supplier.

◆ **December, 1999** - Federal Energy Regulatory Commission (FERC) issues an order requiring that all its jurisdictional utilities that own, operate, or control transmission facilities used in interstate commerce file a proposal to participate in a Regional Transmission Organization (RTO). The submission deadline for proposals is October 15, 2000. FERC lays out general requirements: independence from market participants; grid "sufficiency" to serve customers reliably and fairly; non-discriminatory access; and, exclusive authority over grid, regardless of who owns wires. In addition, while BPA does not fall under FERC jurisdiction, its 80 percent market share of transmission in the Northwest necessitates its inclusion in an RTO.

◆ **January, 2000** - Northwest Power Planning Council issues report indicating a one-in-four (approx. 25%) chance that the region's power supply will fall short of demand in coming winters, which could result in brownouts and other disruptions. (In March, Bonneville Power Administration will warn that agency's supply cannot keep up with population and economic growth and related increases in demand; it will have to purchase 3,000 megawatts or more to meet obligations to customers.)

◆ **February, 2000** - PSC approves voluntary interim electric supply decrease for Montana Power customers. MPC applied the proceeds from the sale of the generating assets to offset regulatory assets, reducing the amount of the associated stranded costs.

◆ **March, 2000** - MPC announces that it is exiting the energy business altogether, and puts its electricity and natural gas utilities up for sale. Some people say they saw this coming; others are astounded.

◆ **April, 2000** - MPC takes the PSC to court over stranded cost accounting. The district court in Butte sides with the company and overturns a PSC order. Commission launches appeal to the state Supreme Court, where a decision is pending.

◆ **May, 2000** - Special Session of the Montana Legislature called by Governor Racicot. Attempts to clarify the PSC's authority to review MPC's transactions via legislation fail to gain a sufficient number of votes to fit within the parameters of Governor's call or provide cause for additional Special Session; therefore, the 57th Legislature will likely encounter a situation in which the Montana Power Company insists that existing statutes protect its financial gains from PSC authority, while the Commission itself will look to the same statutes and assert jurisdiction.

◆ **June, 2000 through "Who Knows?"** - The Prices Crisis hits California and spreads to Pacific Northwest, which becomes highest-priced region in the country. Wholesale prices on short-term contract go up five-fold; spot market megawatts cost over \$1,000. Over 1,500 jobs lost in plant closures region-wide. Several energy-intensive Montana businesses' power contracts expire: Montana Resources Inc. announces layoffs; Louisiana Pacific and Smurfit-Stone Container curtail production. Columbia Falls Aluminum cuts production and sells power to grid; an oil refinery's power bill triples over past year. BPA announces suspension

of its Subscription program. Montana Senators Baucus and Burns scold Bonneville for power curtailments and asks FERC to investigate power company profiteering.

◆ **August, 2000** - Following the end of the rate moratorium on delivery charges (July 1), MPC files electric and natural gas delivery and storage services rate increases with PSC. Electric request totals \$38.5 million, which will mean an estimated 12 percent increase in monthly bills for residential customers; natural gas hike will add an additional 9 percent. PSC final order expected in May, 2001. Utilities in other Northwest states also filing rate increases with their respective regulatory authorities.

◆ **September, 2000** - the Montana Environmental Information Center launches a lawsuit against the Montana Electric and Gas Alliance, a non-profit organization formed and funded by the cities of Billings, Bozeman, Butte, Great Falls, and Helena, for refusing to disclose information on the organization's for MPC's electricity and gas utilities--an alleged breach of Montana citizens' right to know. The Alliance resists MEIC, as it considers itself both a private organization, not a governmental entity, and is bound to secrecy under the conditions set forth by Goldman Sachs on behalf of MPC. Disclosure of bidding information would automatically disqualify the Alliance, thus preventing the possibility that a public entity would acquire MPC's utilities. (The suit is dropped when MPC announces sale to NorthWestern Corporation. See next item.)

◆ **October, 2000** - A busy month, to be sure:

↳ Montana Power announces sale of its electric and natural gas utilities to NorthWestern Corporation, headquartered in Sioux Falls, South Dakota, for approximately \$1.1 billion. The announcement characterizes the transaction as combining cash payments and the assumption of about \$488 million in debt. MPC spokesmen later refer to the deal as a stock transaction. The distinction could prove to be very important to ratepayers. MPC to file amended transition plan with PSC. Closure of deal expected in first half of 2001. NorthWestern reassures state officials that it will retain Butte office, MPC workers, even the "Montana Power" name; also maintains that above-book value offer will not necessitate request for rate hike.

↳ Six Western electric utilities, including Montana Power Company, submit proposal to FERC to consolidate high-voltage transmission holdings into a single, for profit company called TransConnect, which would also be a

member of the RTO West. On October 23, RTO West submits first part of two-tier submission to FERC; second part likely to be completed in late spring of 2001.

⊃ Several members of California Congressional delegation ask U.S. Dept. of Energy to suspend BPA subscription process; also request Government Accounting Office to investigate BPA "profits" from sales to California. Critics claim BPA's lack of accountability (it is not subject to FERC jurisdiction) makes an independent GAO audit essential. Northwest senators, including Baucus and Burns (both of whom had criticized BPA in summer) fire back with "adamant and emphatic opposition". At month's end, BPA announces completion of subscription with signing of 5- and 10-year contracts with major customers. Also explains need for a Cost Recovery Adjustment Charge (CRAC) on most contracts to cover unforeseen power purchase costs and ensure timely payments to U.S. Treasury.

⊃ Public Service Commission declares intention to extend the transition period for implementation of small customer choice for two years (to June 30, 2004), in light of extenuating circumstances that do not bode well for residential and small commercial customers.

◆ **November, 2000** - Busier still:

⊃ In Washington, D.C., the Federal Energy Regulatory Commission issue an unusual "proposed order" for sweeping changes to California's electricity market structure that could spark a constitutional showdown between federal and state authorities. FERC finds high prices in some parts of California to be "unjust and unreasonable", but also that the agency lacks authority to order consumer refunds.

⊃ BPA announces amended power rate proposal, including much larger, three-stage Cost Recovery Adjustment Charge, or CRAC, to cover costs of purchasing power to meet increased system loads; i.e., get ready for increased prices for Bonneville power products.

⊃ Legislative Services Division receives bill draft requests to repeal restructuring laws, extend transition period, empower investigation and prosecution of corporate "profiteering" in electricity markets.

This is not an exhaustive list, but it includes the signal events so far. What is most

distinctive about these items is that almost none of them was contemplated or openly discussed by the Committee prior to the event's occurrence. The most notable exception is the TAC's April 20, 2000 deliberations over whether or not to recommend clarification of PSC authority during the Special Session in May, 2000. It did not, but instead issued a memo to all members of the legislature that illustrated differing perspectives on the issue. (See Appendix 4.)