

MINUTES

MONTANA HOUSE OF REPRESENTATIVES  
51st LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON NATURAL RESOURCES

Call to Order: By Chairman Gary Spaeth, on January 16,  
1989, at 8:00 a.m.

ROLL CALL

Members Present: All members were present.

Members Excused: None

Members Absent: None

Staff Present: Carl Schweitzer, LFA  
Jane Hamman, OBPP  
Donna Grace, Committee Secretary

HEARING ON DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

List of Proponents and Group they Represent:

Representative Vernon Westland  
Ed Steinmetz, Montana Water Court  
Gary Fritz, DNRC  
Dave Darby, DNRC  
Dee Rickman, DNRC  
John Armstrong, DNRC  
Van Jamison, DNRC

List of Opponents and Group they Represent:

None.

Testimony 17:A (001)

Representative Vernon Westlake representing House District 76 appeared before the committee to discuss the funding for adjudication of water rights in the DNRC budget. He stated that a study of the adjudication process had been completed by a Denver law firm and it was their opinion that the system currently being used was in order and he supported proper funding so that program could continue. Rep. Westlake suggested that possibly it might be possible to transfer funds from somewhere within the DNRC budget to accomplish this as, in his opinion, water adjudication was a priority project.

Mr. Westlake's comments are contained in Exhibit 1.

Ed Steinmetz, attorney for the Montana Water Court, explained the position of the Water Courts in regard to water adjudication. He stated that the technical information provided by the DNRC is invaluable in the work of the Water Court. When the budget was cut two years ago personnel in that department were cut 50% and now that the legal validity of the process has been determined, the Water Court would like to see the funding returned so that their work could continue. With over 100,000 claims to be examined, at the present rate it would be 10 or 15 years before the process is completed. Mr. Steinmetz stated that he felt this was a crucial area and funding in the area of claims examination should be a priority item which should be raised to the level where the DNRC can examine claims at the same rate the Water Court could adjudicate them.

Gary Fritz, Administrator of the Water Resources Division, stated that this was one item that would be discussed at a later date when the Water Resources Division presents its proposed budget for the consideration of the committee. The budget for this program includes 18.5 FTE and about a half a million dollars which is half of what it was before the legislature cut funds during the last session. Mr. Fritz stated that there had been a great deal of controversy about this issue and it was his observation that because of the adoption of the Supreme Court Rules which the Department and the Water Court agree on, he believed the program could continue. The rules are working well. He also stated that he thought the Water Masters were doing a good job. However, these people are actually only working half of their time on examining claims and the other half is spent on other work for the Water Court. If the budget was fully restored as Mr. Westlake suggested, they could expect to examine about 16,000 claims per year.

Discussion followed. Mr. Darby cautioned that this would have to be funded with new money as the current DNRC budget as proposed was a very tight budget and it would be nearly impossible to redistribute funds within the department. Also, the fact was brought out that even if the budget for this program were doubled it would be impossible to complete it within the next biennium.

Chairman Spaeth stated that he had talked with Senator Story about this matter and he will be looking at it and probably suggest that some new money be allocated into this program.

Mr. Steinmetz suggested that possibly some money could be transferred from other areas as the DNRC cannot do any permitting in areas where there are unappropriated waters on any stream where the filing status adds up to all the available water. Perhaps the agency might be able to reexamine their budget in that area and see if they could transfer some funds that are allocated to permitting into the adjudication area.

Senator Devlin asked Mr. Steinmetz if they could handle 16,000 claims per biennium in addition to what they are doing now and he replied that he thought they could but said he would check to see how fast they were being done. Senator Devlin said he would like to see those figures.

Chairman Spaeth stated that it would be necessary to figure out exactly how much money it would take to accomplish the work to be done and what the possible funding sources might be. He asked the budget office for a recommendation. This matter will be considered later on in the week after the requested information is received.

#### Oil and Gas Commission

Mrs. Dee Rickman, Executive Secretary to the Board of Oil and Gas continued her testimony in support of the budget for the Oil and Gas Conservation Division.

Mrs. Rickman was asked several questions relative to legislation to incorporate environmental review into the Board's permitting process and also relative to incorporating the administration of the Underground Injection Control Program into the Board's operations.

#### Executive Action:

LFA Analysis - Exhibit 2.

Issue No. 1. Vacant Position. The LFA current level does not include a field inspector position which was vacant all of fiscal 1988. The executive budget includes the position.

MOTION: Representative Iverson made the motion that the subcommittee adopt the executive recommendation.

Discussion followed. Mrs. Rickman stated that they do not intend to fill the position unless the industry picks up or it is necessary to have assistance when the

environmental review is incorporated into the permitting process or the possibility that the industry picks up. It was pointed out that the policy of the committee has allowed a little more flexibility in relation to these positions because as the need declines, positions decline, but as growing exploration takes place they need to respond.

VOTE: MOTION PASSED. All members present voted yes.

Issue No. 2. Rent. This was an item that was missed by the LFA's office and applied to increased rent at the Shelby field office. Mrs. Rickman stated that the executive budget contained the correct figures.

MOTION: Senator Devlin moved that the executive budget recommendation be approved.

VOTE: MOTION PASSED. All present voted yes.

Issue No. 3. Rulemaking Effort of the Board to Incorporate Environmental Review. Mr. Schweitzer stated that this was new money added to cover anticipated costs of incorporating the environmental review process.

MOTION: Representative Swift moved that the executive budget recommendation be adopted. No further discussion.

VOTE: MOTION PASSED. All members present voted yes.

Issue No. 4. Legal Costs. Mrs. Rickman stated that this was for private legal counsel for the Oil and Gas Conservation Board. There was some confusion over this issue so it will be postponed until later.

Issue No. 5. Well Plugging. Mr. Schweitzer stated that there was \$10,000 of RIT appropriations for plugging of abandoned wells that was put into the budget last year and it was continued at the current level this year. The executive did not put this money in the budget and instead recommended language that says the environmental contingency account which has \$175,000 in it be used for this problem.

Ms. Hamman stated that the Board has had an appropriation from the RIT fund for a number of years, considerably more than \$10,000, intended for restoration of old sites which were drilled prior to 1954 when the Board came into effect. No funds were used in 1988.

MOTION: Representative Kimberley moved that the executive

recommendation be approved.

VOTE: MOTION PASSED. All present voted in favor.

Issue No. 6. Operating Expenditures Associated with Full Staffing. Mr. Schweitzer stated that in 1988 there were some positions which were vacant and, accordingly operations and travel costs were lower. The LFA reflects current level and the executive put more money into the budget to recognize full staffing.

MOTION: Senator Jergeson made a motion that the executive recommendation be adopted.

VOTE: MOTION PASSED. All present voted yes.

Issue No. 7. Equipment - Office Equipment. Mr. Schweitzer stated that the LFA was allowing \$10,000 more for this item than the executive.

MOTION: Senator Devlin moved that the executive budget be adopted.

VOTE: MOTION PASSED. All present voted yes.

Issue No. 8. Mr. Schweitzer stated that this issue was not outlined on the LFA analysis. This for a difference of \$11,068 which the LFA has in the budget over what the executive had included. Mr. Schweitzer said he had gone with the agency's original request and the executive had less. Ms. Hamman explained that \$7,500 of this amount was for board compensation for additional meetings and \$3,500 was for overtime for field inspectors.

MOTION: Senator Jergeson made a motion that the LFA recommendation be accepted.

VOTE: MOTION PASSED. All present voted yes.

Issue No. 4. Legal Costs. This item represents an increase for private legal counsel for the Board of Oil and Gas. An increased legal workload is anticipated and the attorney's fees have been increased from \$75.00 to \$80.00 per hour.

MOTION: Representative Swift moved that the executive budget be adopted.

VOTE: MOTION PASSED. Senators Jergeson and Devlin voted no. All others voted yes.

Centralized Services 18:A (001)

## LFA Analysis - Exhibit 3.

John Armstrong, Administrator of the Centralized Services, stated that this Division is comprised of three bureaus, the Board of Natural Resources, the Director's Office and Central Support. He briefly outlined the responsibilities of each bureau. There were no questions or discussion.

## Executive Action:

Issue No. 1. Natural Resources Board Expenses. Mr. Schweitzer stated that there was a \$5,930 difference between the LFA current level and the executive budget. The executive recommended more money for legal counsel and the LFA had added more for Board Compensation and Travel as more board meetings are scheduled for the coming biennium than were held in the past.

MOTION: Senator Jergeson moved that the LFA recommendation be adopted. The Chairman stated that he would support the motion which would cut back legal services by \$16,000 and permit the board to hold more meetings which he felt were desirable.

VOTE: MOTION PASSED. All present voted yes.

Issue No. 2. The executive budget proposes to replace \$13,627 of general fund money with oil overcharge funds.

MOTION: Senator Devlin made a motion to adopt the executive recommendation.

VOTE: MOTION PASSED. All present voted in favor of the motion.

Energy Division (211)

Van Jamison, Administrator of the Energy Division, outlined the responsibilities of this department. He stated that the division was composed of three bureaus -- Conservation and Renewable Energy Bureau, Planning and Analysis Bureau and the Facility Siting Bureau together with an administrative section that provides administrative and fiscal oversight to the three bureaus. Mr. Jamison provided information to the committee covering a history of general fund appropriation history and a report to the 51st Montana Legislature on Renewable Energy and Conservation

Program. The complete text of Mr. Jamison's testimony is included in Exhibit 4 and 5.

In closing, Mr. Jamison remarked that it was his belief that the Energy Division had disciplined itself over the past several years to being extremely frugal. The budget being presented is a very conservative one and he urged the committee to give favorable consideration.

There were no questions or discussion following Mr. Jamison's remarks.

**Executive Action:**

The Legislative Analyst's analysis is contained in Exhibit 6.

Issue No. 1. Administrative Travel. The travel for the division was increased over fiscal 1988 expenditures. The increase was primarily in federally funded travel. The LFA supports the general fund budget of the energy division. The executive budget has replaced general funds with department of energy funds.

Discussion followed.

**MOTION:** Representative Swift moved that \$18,908 be approved for each year of the biennium (executive recommendation) and allow the \$1,247 additional funds.

**VOTE:** MOTION PASSED. All present voted yes.

Issue No. 2. Position Transferred from Centralized Services. Mr. Schweitzer stated that the executive budget proposes transferring one position from Centralized Services to the Energy Division. The LFA current level did not include the transferred position because the responsibilities of the position have changed. The executive budget also proposes that the position in the Energy Division be financed with oil overcharge funds rather than general fund as the position was financed in the Centralized Services Division.

Discussion followed. Mr. Darby stated that this position would be built into the budget for the following biennium and it would be necessary to justify spending general fund money as oil overcharge funds may not be available at that time. However, there are some major issues coming up which affect the state in the future and that is why the position is being added now when these funds are available.

MOTION: A motion was made by Senator Devlin that the executive recommendation be adopted with the stipulation that it not be included in current level expenditures. If it becomes a permanent position, it will be necessary for the department to justify the position.

VOTE: MOTION PASSED. All present voted yes.

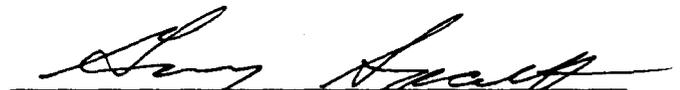
Department of State Lands

Mr. Schweitzer handed out a table which outlined all of the committee's decisions relative to the Department of State Lands budget. Exhibit 7.

Announcements/Discussion: Mr. Spaeth stated that executive action relative to the Department of Energy budget would be continued at 8:00 a.m., Tuesday, January 17.

ADJOURNMENT

Adjournment At: 11:30 a.m.

  
REP. GARY SPAETH, Chairman

GS/dg

1525.mina



EXHIBIT 1

DATE 1-16-89

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January 16, 1989

NATURAL RESOURCES APPROPRIATIONS SUBCOMMITTEE:

Rep. Gary Spaeth, Chairman:  
Sen. Gerry Devlin, Vice Chairman:

Mr. Chairman and Members of the Committee:

I am Vernon Westlake, Rep. of H.D. 76, and I appreciate this opportunity to discuss with you the funding for the examination of water rights in the DNRC Budget.

Agricultural water-right claimants are very concerned that the examination process is not proceeding as fast as it should.

The study of the adjudication process by the Denver law firm, Saunders, Snyder, Ross and Dickson, reports:

"We did not find the framework of the Montana Water Adjudication law or the process prescribed by it to be so grievously flawed as to require a massive legislative overhaul. We conclude that with some minor legislative fine tuning, the process now going forward under that law can be expected to achieve the results sought by the legislature when it adopted Senate Bill 76 in 1979. How rapidly that process can be concluded under the changes we recommend will become a function of the level of funding provided to both the judicial and executive branch institutions involved in the process."

I believe the report basically states that the system is working, however, in order not to stalemate the process, we need proper funding, and that is the reason that I am here this morning.

I am certain you are aware of H.B. 754, which was passed last session, and included a statement of intent that amended 85-2-243, Section 8 of this bill:

"....that it be interpreted to restrict the Department to utilize funds that have been appropriated for the adjudication program. The Department's funding level in adjudicating water claims for the 1987-89 biennium is as specifically set forth in House Bill No. 2."

This brings us to the line-and-item part of the DNRC Budget for the next biennium. I am not aware of the amount the DNRC is requesting in the new budget. I know that H.B. 2, passed in 1987, granted \$584,788 for each year of the biennium for a total of \$1,169,576 to examine water rights.

Judge Lessley states that, with cooperation by the Water Court and the DNRC for the next two years, the remaining claims to

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Natural Resources Appropriations Subcommittee:

be examined temporary or temporary preliminary decrees can be issued. The Water Court believes that DNRC needs to assign additional personnel to the examination process and it also understands that this will take more funding.

Agricultural water users support a larger share of the DNRC Budget for water right adjudication but it is not their intent to raise the total budget request, just to redistribute funding within the budget. For example, funds allocated for litigation that will stalemate the adjudication process should be reduced.

Ed Steinmetz, Chief Water Master with the Water Court, and Gary Fritz with the DNRC, are here this morning. Mr. Chairman, with your permission, I would like Mr. Steinmetz and Mr. Fritz to address the problem as they see it. I am sure they are willing to answer any questions the Committee has. Also, I am willing for questions from the Committee.

I urge the Committee to consider that the solution of problems involving water, now and in the future, will be based on the adjudication of Monyana's water, so let's get on with it.

Thank you.

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LEGISLATIVE ACTION

AGENCY: Department of Natural Resources and Conservation

PROGRAM: Oil and Gas Conservation Division

BUDGET ITEM	Fiscal 1990		Fiscal 1991	
	Executive	LFA Curr Lvl	Executive	LFA Curr Lvl
FTE	26.00	25.00	26.00	25.00
Personal Services	\$664,509	\$636,891	\$665,550	\$636,408
Operating Expenses	359,574	326,189	360,731	329,699
Equipment	56,742	61,728	49,975	54,987
Non-Operating	1,227	1,227	1,227	1,227
TOTAL EXPENSES	\$1,082,052	\$1,026,035	\$1,077,483	\$1,022,321
				\$55,162
FUNDING				
State Special Rev	\$1,082,052	\$1,026,035	\$1,077,483	\$1,022,321
TOTAL FUNDING	\$1,082,052	\$1,026,035	\$1,077,483	\$1,022,321
				\$55,162

General Fund Gross

1. Vacant Position

The LFA current level does not include a field inspector position which was vacant all of fiscal 1988. The executive budget includes the position.

2. Rent

\$ -0- \$43,953

3. Rulemaking effort of the Board to incorporate environmental review.

-0- 12,540

4. Microfilming

-0- 14,000

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	<u>FTE</u>	<u>General Fund</u>	<u>Gross</u>
5. <u>Well Plugging</u>		-0-	(20,000)
6. <u>Operating Expenditures Associated with Full Staffing</u>		-0-	44,780
7. <u>Equipment - Office Equipment</u>		-0-	(9,998)

LEGISLATIVE ACTION

AGENCY: Department of Natural Resources and Conservation

PROGRAM: Centralized services

BUDGET ITEM	Fiscal 1990		Fiscal 1991		Difference
	Executive	LFA Curr Lvl	Executive	LFA Curr Lvl	
FTE	39.00	39.00	39.00	39.00	0.00
Personal Services	\$1,131,762	\$1,110,266	\$1,133,999	\$1,112,458	\$21,541
Operating Expenses	433,607	427,474	396,591	390,906	5,685
Equipment	8,236	11,343	4,907	7,814	(2,907)
Non-Operating	10,417	10,417	10,417	10,417	0
<b>TOTAL EXPENSES</b>	<b>\$1,584,022</b>	<b>\$1,559,500</b>	<b>\$1,545,914</b>	<b>\$1,521,595</b>	<b>\$24,319</b>
<b>FUNDING</b>					
General Fund	\$1,111,126	\$1,216,522	\$1,112,688	\$1,214,090	(\$101,402)
State Special Rev	383,396	260,478	377,976	259,255	118,721
Federal Revenue	89,500	82,500	55,250	48,250	7,000
<b>TOTAL FUNDING</b>	<b>\$1,584,022</b>	<b>\$1,559,500</b>	<b>\$1,545,914</b>	<b>\$1,521,595</b>	<b>\$24,319</b>

General Fund Gross

There are three differences between the LFA current level and the executive budget which net to \$5,930. Table C details the differences.

\$5,930 \$5,930

1. Natural Resources Board Expenses

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Table C  
1991 Biennial Board Expenses

	<u>LFA</u>	<u>Executive</u>	<u>Difference</u>
Board Compensation	\$ 9,850	\$ 6,846	\$(3,004)
Legal Counsel	16,804	30,000	13,196
Travel	<u>13,784</u>	<u>9,522</u>	<u>(4,262)</u>
Total	<u>\$40,438</u>	<u>\$46,368</u>	<u>\$ 5,930</u>

	<u>General</u>	<u>Gross</u>
	<u>Fund</u>	
2. The executive budget proposes to replace \$13,627 of general fund with oil overcharge funds. (\$13,627)		\$ -0-

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DRAFT 1-15-89; 10:39am

1

THE ENERGY DIVISION IS COMPOSED OF 3 BUREAUS:

- THE CONSERVATION AND RENEWABLE ENERGY BUREAU
- THE PLANNING AND ANALYSIS BUREAU, AND
- THE FACILITY SITING BUREAU

--AS WELL AS AN ADMINISTRATIVE SECTION THAT PROVIDES ADMINISTRATIVE AND FISCAL OVERSIGHT OF THE THREE BUREAUS.

WITHIN THE ENERGY DIVISION, THERE ARE FOUR MAJOR FUNDING SOURCES. THEY ARE:

1. GENERAL FUND
2. FILING FEES THAT ARE COLLECTED UNDER MFSA AND MEPA
3. FUNDS EARMARKED IN THE ALTERNATIVE ENERGY ACCOUNT, AND
4. FEDERAL FUNDS PROVIDED BY DOE AND BPA, WHICH

FOR BUDGETING PURPOSES, INCLUDE OIL OVERCHARGE FUNDS THAT WERE APPROPRIATED DURING THE LAST SESSION IN HB621 AND WERE INCORPORATED INTO ONE OF THE ELIGIBLE FEDERAL PROGRAMS THAT DNRC ADMINISTERS.

TWO MAJOR FUNDING AND PROGRAM RELATIONSHIPS EXIST WITHIN THE DIVISION.

FIRST, THE ADMINISTRATIVE SECTION, PLANNING AND ANALYSIS BUREAU, AND THE FACILITY SITING BUREAU ARE SUPPORTED BY THE GENERAL FUND AND MFSA AND MEPA FILING FEES. ONLY THE FACILITY SITING BUREAU USES FILING FEES EXTENSIVELY TO CARRY OUT ITS RESPONSIBILITIES. MOST FUNDING FOR THE OTHER BUREAU AND SECTION COMES FROM GENERAL FUNDS. THE FACILITY SITING BUREAU USES GENERAL FUNDS TO ADMINISTER MFSA AND USES FILING FEES TO PREPARE EISs. THE CURRENT LEVEL BUDGET REQUEST FOR THE FACILITY SITING BUREAU CONTAINS NO FTEs FOR THE PREPARATION OF EISs. THE PERSONNEL NEEDED TO PREPARE EISs ARE INCORPORATED IN THE BUDGET UNDER CONTRACTUAL SERVICES FUNDED BY THE BLOCK MFSA/MEPA APPROPRIATION.

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THE SECOND MAJOR PROGRAM AND FUNDING RELATIONSHIP IS THE CONSERVATION AND RENEWABLE ENERGY BUREAU THAT RECEIVES FUNDING FROM THE REPAYMENT OF LOANS AND GRANTS TO THE ALTERNATIVE ENERGY RESEARCH, DEVELOPMENT AND DEMONSTRATION ACCOUNT, AND FEDERAL FUNDS PROVIDED BY DOE AND BPA. THESE FEDERAL FUNDS INCLUDE THE OIL OVERCHARGE FUNDS THAT WERE INCORPORATED INTO ONE OF THE ELIGIBLE FEDERAL ENERGY PROGRAMS DNRC ADMINISTERS. LAST SESSION THESE OVERCHARGE FUNDS WERE APPROPRIATED IN HB 621.

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THE FACILITY SITING BUREAU'S FUNCTION AND FUNDING HAVE BEEN THE SUBJECT OF EXTENSIVE DISCUSSION AND, UNFORTUNATELY, PAST MISUNDERSTANDING.

THE FACILITY SITING BUREAU SERVES TWO PRIMARY PURPOSES:

1. FIRST, IT ADMINISTERS THE MONTANA MAJOR FACILITY SITING ACT.

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2. SECOND, IT PREPARES ENVIRONMENTAL IMPACT STATEMENTS.

AS I SAID EARLIER, THE FACILITY SITING BUREAU USES GENERAL FUND TO ADMINISTER THE MFSA. IT IS IMPORTANT TO UNDERSTAND THAT GENERAL FUNDS ARE NOT USED TO PREPARE IMPACT STATEMENTS, AND FILING FEES ARE NOT USED TO ADMINISTER THE MFSA. IN FACT, OUR CHIEF LEGAL COUNSEL'S READING OF THE MFSA CONCLUDES THAT DNRC COULD NOT, UNDER THE EXISTING LAW, CHARGE APPLICANTS A FEE FOR ITS GENERAL RESPONSIBILITIES IN ADMINISTERING THE MFSA.

ADMINISTRATION OF THE FACILITY SITING ACT INVOLVES:

- WRITING RULES THAT THE BOARD OF NATURAL RESOURCES MAY ADOPT. FOR EXAMPLE, DURING THIS BIENNIUM WE WORKED WITH THE MHD DEVELOPMENT CORPORATION, MPC AND PUBLIC INTEREST GROUPS TO DEVELOP RULES CLARIFYING THE CRITERIA FOR EXEMPTING CERTAIN UPGRADES TO EXISTING GENERATING FACILITIES. WE HAVE GIVEN THE NEW ADMINISTRATION AN OPPORTUNITY TO REVIEW THESE RULES BEFORE WE ISSUE LEGAL NOTICE.

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- PROVIDING PRE-APPLICATION CONSULTATION TO PROSPECTIVE APPLICANTS TO CLARIFY APPLICATION REQUIREMENTS AND REGULATORY PROCEDURES.
- PROCESSING EXEMPTIONS FOR FACILITIES THAT WOULD OTHERWISE BE COVERED BY THE MFSA AND MIGHT QUALIFY FOR AN EXEMPTION UNDER THE ACT. LAST YEAR, WE WORKED WITH GLACIER AND VIGILANTE ELECTRIC COOPS TO PROCESS EXEMPTIONS FOR TRANSMISSION LINES THEY PROPOSED TO BUILD.
- MONITORING COMPLIANCE WITH PROVISIONS OF CERTIFICATES ISSUED BY THE BOARD. AS AN EXAMPLE, LAST YEAR DNRC INSPECTED AND RECOMMENDED THAT THE BOARD RELEASE RECLAMATION BONDS ON 209 MILES OF THE COLSTRIP-TOWNSEND 500 KV TRANSMISSION LINE.
- SERVING AS STAFF TO THE BOARD OF NATURAL RESOURCES
- PARTICIPATING ON THE JOINT FEDERAL/STATE UTILITY CORRIDOR OVERSIGHT REVIEW COMMITTEE TO ENSURE CONSISTENCY IN UTILITY CORRIDOR PLANNING TO FACILITATE JOINT PROJECT REVIEWS AND STANDARD SETTING, AND TO REDUCE DUPLICATION AND SAVE BOTH

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TIME AND MONEY, AND

- RESPONDING TO INFORMATION REQUESTS FROM THE PUBLIC, LEGISLATURE AND OTHERS.

THE FACILITY SITING BUREAU'S SECOND RESPONSIBILITY IS THE PREPARATION OF EIS'S UNDER MFSA AND MEPA. FILING FEES AND FILING FEES ALONE ARE USED TO PREPARE THESE DOCUMENTS.

THE PRIMARY SOURCE OF PAST MISUNDERSTANDING REGARDING THE FUNDING OF THE FACILITY SITING BUREAU IS THE FACT THAT PRIOR TO THIS BIENNIUM, DNRC RECEIVED MORE GENERAL FUND SUPPORT THAN WOULD HAVE BEEN STRICTLY REQUIRED JUST TO ADMINISTER THE SITING ACT.

THIS FUNDING WAS INTENDED TO ENSURE THAT AN EXPERIENCED MULTIDISCIPLINARY ENVIRONMENTAL STAFF WAS AVAILABLE WHENEVER AN APPLICATION REQUIRED THE PREPARATION OF AN EIS UNDER MFSA OR MEPA.

THESE FUNDS WERE NOT TO BE USED UNLESS INSUFFICIENT FILING FEE REVENUES WOULD OTHERWISE CAUSE THE STAFF THAT PREPARED IMPACT STATEMENTS TO BE DISMANTLED; OTHERWISE THE FUNDS WERE TO BE REVERTED TO THE

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GENERAL FUND, AND THEY WERE.

THIS WAS THE CONCEPT OF THE "SAFETY NET."

THE SIZE OF THE "SAFETY NET" WAS REDUCED OVER TIME UNTIL ULTIMATELY IT HAS DISAPPEARED. THE 1987 LEGISLATURE REMOVED THE LAST VESTIGE OF THE "SAFETY NET" BY REMOVING \$34,000 FROM THE ENERGY DIVISION'S 1988 AND 1989 APPROPRIATION REQUEST.

THE PRESENCE OF AN EXPERIENCED STAFF TO PREPARE ENVIRONMENTAL IMPACT STATEMENTS IS NO LONGER ASSURED. THE ENTIRE ENVIRONMENTAL REVIEW STAFF WITHIN THE FACILITY SITING BUREAU IS NOW TOTALLY DEPENDENT ON AN UNINTERRUPTED FLOW OF PROJECT FUNDS.

AS I SAID EARLIER, THE FUNDING FOR THIS STAFF APPEARS AS CONTRACTED SERVICES IN THE MFSA/MEPA APPROPRIATION AND NOT AS CURRENT LEVEL FTEs.

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THE PLANNING AND ANALYSIS BUREAU IS PRIMARILY FUNDED BY THE GENERAL FUND.

THIS BUREAU IS RESPONSIBLE FOR MONITORING PETROLEUM

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AND ELECTRICITY SUPPLIES AND DEMAND UNDER THE ENERGY EMERGENCY SUPPLIES POWER ACT, AND FOR DEVELOPING SHORT-TERM, CONTINGENCY PLANS TO DEAL WITH SUPPLY DISRUPTIONS.

THE PLANNING AND ANALYSIS BUREAU ALSO PROVIDES STATE DECISION MAKERS WITH INFORMATION, ANALYSIS AND RECOMMENDED ACTIONS ON ENERGY ISSUES THAT AFFECT MONTANA.

SINCE MANY OF THE ENERGY POLICIES THAT MOST PROFOUNDLY AFFECT MONTANA ARE MADE OUTSIDE THE

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- AS YOU MAY KNOW, MPC SOLD 105 MW OF COLSTRIP 4 TO LOS ANGELES, BUT THEY COULD NOT COMPLETE THE SALE WITHOUT GETTING ACCESS TO BPA'S INTERTIE TRANSMISSION SYSTEM TO CALIFORNIA. OUR ANALYSIS AND COMMENTS, PROVIDED THROUGH THE GOVERNOR, WERE INSTRUMENTAL IN GETTING BPA TO INCREASE MPC'S ALLOCATION OF INTERTIE CAPACITY TO ALLOW THE SALE TO TAKE PLACE.

- THE PLANNING AND ANALYSIS BUREAU ANALYZED THE EFFECTS OF PROPOSED FEDERAL LEGISLATION THAT CALLED FOR AN OIL IMPORT FEE AND PREPARED BRIEFING PAPERS FOR THE GOVERNOR AND THE CONGRESSIONAL DELEGATION ON THE EFFECTS IN MONTANA. STUDIES WE REVIEWED ON THE EFFECTS OF THE IMPORT FEE ON THE UNITED STATES CONCLUDED THAT WHETHER THE FEE BENEFITTED OR HARMED THE COUNTRY DEPENDED ON THE FISCAL AND MONETARY POLICIES PURSUED UPON ENACTING SUCH A POLICY. SINCE OVER HALF OF THE OIL REFINED IN MONTANA IS IMPORTED FROM CANADA, THE EFFECTS ON MONTANA'S INDUSTRIES THAT DEPEND ON PETROLEUM, SUCH AS AGRICULTURE, TRANSPORTATION, TIMBER AND MINING, WOULD HAVE BEEN SIGNIFICANT. THE COST TO THESE INDUSTRIES AND MONTANA CONSUMERS COULD EASILY

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HAVE EXCEEDED \$100 MILLION PER YEAR. WITHOUT ANY ASSURANCES ON FISCAL AND MONETARY POLICY AND SUCH LARGE POTENTIAL IMPACTS TO THE STATE, WE RECOMMENDED THAT THE GOVERNOR OPPOSE SUCH A POLICY.

- THE BUREAU EVALUATED GOVERNOR CUOMO'S ACID RAIN COMPROMISE PROPOSAL THAT WOULD HAVE DIVERTED 2 PERCENT OF IMPORTED OIL TO THE STRATEGIC PETROLEUM RESERVE (SPR) AND USED THE MONEY SAVED TO PAY FOR ACID RAIN CONTROL. SINCE MONTANA IS UNLIKELY TO BENEFIT FROM THE SPR, THE

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GOVERNORS' ASSOCIATION. THE POLICY ADDRESSES ALL TYPES OF ENERGY FORMS AND USES. THE POLICY WILL BE CONSIDERED FOR ADOPTION BY THE GOVERNORS IN FEBRUARY. IT IS IMPORTANT FOR TWO REASONS. FIRST, THIS IS THE FIRST NATIONAL ENERGY POLICY DEVELOPED TO ACCOMMODATE GROUPS OF VARYING INTERESTS, RATHER THAN TO FOSTER THE GOALS OF SPECIAL INTERESTS. SECONDLY, THE POLICY IS COMPREHENSIVE, AS OPPOSED TO THE AD HOC APPROACH THAT HISTORICALLY HAS BEEN PURSUED BY THE FEDERAL GOVERNMENT.

- WE ALSO HELPED THE NATIONAL GOVERNORS' ASSOCIATION DEVELOP A NATIONAL TRANSMISSION POLICY AND ARE WORKING WITH THE UTILITY INDUSTRY THROUGH THE KEYSTONE CENTER TO IMPLEMENT THE RECOMMENDATIONS CONTAINED IN THIS POLICY. BECAUSE OF MONTANA'S RECOGNIZED LEADERSHIP IN THIS AREA, THE AMERICAN BAR ASSOCIATION HAS ASKED DNRC TO ASSIST IN DEVELOPING A MODEL STATE SITING CODE FOR TRANSMISSION LINES. THAT PROJECT IS STILL IN ITS FLEDGLING STAGES.

- THE BUREAU PROVIDED AN OBJECTIVE UNBIASED

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ASSESSMENT OF MPC'S PROPOSAL TO BUY 74 MW OF COLSTRIP 4 POWER FOR USE BY RATEPAYERS IN MONTANA RATHER THAN SELLING THE POWER OUT OF STATE. WE WERE CONCERNED THAT ALL THE POWER WOULD BE SOLD OUT OF STATE, AND WHEN MPC NEEDED NEW RESOURCES, NO POWER WOULD BE AVAILABLE FROM THE FACILITY FOR USE IN MONTANA. WE ALSO WERE CONCERNED THAT A GOOD ENERGY POLICY DECISION ON THIS ISSUE BE MADE BECAUSE OF ITS IMPORTANCE TO THE STATE. THE ISSUE WILL FINALLY BE RESOLVED BY THE PUBLIC SERVICE COMMISSION. WITH THE GOVERNOR'S APPROVAL, WE HAVE INTERVENED IN THIS RATE CASE TO PROVIDE THE PSC WITH A SOUND ANALYTIC BASIS FOR ITS DECISION.

THE BUREAU IS OFTEN REQUESTED TO PERFORM ECONOMIC AND FINANCIAL ANALYSES OF PROPOSED ACTIONS OR EXPENDITURES AND TO PREPARE REPORTS WITH FINDINGS AND RECOMMENDATIONS FOR DECISION MAKERS. EXAMPLES OF SOME OF THE BUREAU'S RECENT ACTIVITIES ILLUSTRATE THE TYPE OF ANALYSIS WE PROVIDE.

THE BUREAU:

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- ASSESSED THE FINANCIAL FEASIBILITY AND ECONOMIC RISK FOR THE STATE TO INSTALL TURBINES IN THE BROADWATER DAM.

-EVALUATED THE COST AND THERMAL PERFORMANCE OF OVER 100 HOUSES BUILT IN MONTANA, TO THE MODEL CONSERVATION STANDARDS UNDER THE BONNEVILLE POWER ADMINISTRATION'S NEW RESIDENTIAL CONSTRUCTION PROGRAMS.

- EVALUATED THE COST EFFECTIVENESS OF BUILDING ELECTRICALLY HEATED HOMES TO MODEL CONSERVATION STANDARDS IN MONTANA, AND PROVIDED THE ANALYSIS AS INPUT INTO THE BUILDING CODES BUREAU'S 1988 CODE REVISION PROCESS.

- EVALUATED THE PERFORMANCE, EFFECTIVENESS, COST SAVINGS AND FINANCIAL FEASIBILITY OF ENERGY-SAVING MEASURES INSTALLED IN SCHOOLS AND INSTITUTIONAL BUILDINGS IN MONTANA.

THE PLANNING AND ANALYSIS BUREAU ALSO ASSESSES NEED AND ALTERNATIVES UNDER MFSA AND ALTERNATIVES UNDER MEPA AND RECEIVES FUNDING FROM FILING FEES FOR THIS

ACTIVITY.

ENERGY HAS COME TO THE FOREFRONT AGAIN AS A NATIONAL ISSUE AFTER SEVERAL YEARS OF BEING IGNORED. IN FACT THE NUMBER OF ENERGY ISSUES THAT AFFECT THE STATE HAS INCREASED TO THE POINT THAT THE STAFF OF THE BUREAU IS NOT ABLE TO HANDLE THE WORKLOAD. THAT IS WHY WE ARE REQUESTING AN ADDITIONAL FTE TO BE FUNDED FROM OIL OVERCHARGE FUNDS. THE BEAUTY OF USING THE OIL OVERCHARGE FUNDING IS THAT THE STATE CAN USE FUNDS PROVIDED AS RESTITUTION FOR PAST HARMS TO REPRESENT ITS INTERESTS IN FEDERAL AND OTHER ENERGY ISSUES THAT AFFECT THE STATE. ENERGY ISSUES THAT WE NOW EXPECT TO HAVE A PRONOUNCED EFFECT ON MONTANA, INCLUDE:

- THE GREENHOUSE EFFECT AND ASSOCIATED CONGRESSIONAL LEGISLATION,
  
- FERC RULEMAKING ACTIVITIES AFFECTING THE UTILITY INDUSTRY,
  
- INCREASED EMPHASIS ON ENERGY EMERGENCY RESPONSE PLANNING,

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- USE OF THE OIL IMPORT FEE OR A GASOLINE TAX TO REDUCE THE FEDERAL DEFICIT,
  
- FEDERAL PREEMPTION OF STATE AUTHORITY OVER ENERGY MATTERS,
  
- CLEAN COAL PROGRAMS AND ACID RAIN LEGISLATION, AND
  
- NATURAL GAS DEREGULATION.

PROVIDING ADEQUATE FUNDING FOR THE PLANNING AND ANALYSIS BUREAU, INCLUDING APPROVAL OF THE NEW FTE FUNDED FROM OIL OVERCHARGE FUNDS, WILL CLEARLY BENEFIT THE STATE BY PROVIDING STATE DECISION MAKERS WITH ANALYSIS AND EVALUATION OF ENERGY ISSUES SO THAT APPROPRIATE STATE ACTIONS CAN BE TAKEN.

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IN RECENT YEARS, GENERAL FUND APPROPRIATIONS AND EXPENDITURES WITHIN THE ENERGY DIVISION HAVE DECREASED MARKEDLY AS WE'VE ALL ATTEMPTED TO HOLD COSTS DOWN AND BECOME MORE EFFICIENT. THE TABLE, NARRATIVE, AND GRAPHS THAT I'VE SUPPLIED TO THE COMMITTEE MEMBERS RECOUNT THE MEASURES WE'VE TAKEN

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AND THE MAGNITUDE OF OUR SPENDING REDUCTIONS.

- BETWEEN FY 83 AND FY 88 ACTUAL GENERAL FUND APPROPRIATIONS HAVE DECREASED 35%; IF THE APPROPRIATIONS ARE ADJUSTED FOR INFLATION, THE DECREASE IS 45%.

- DURING THE SAME PERIOD, ACTUAL EXPENDITURES HAVE DECLINED 23%; OR 35% AFTER THE FIGURES ARE ADJUSTED FOR INFLATION.

AS YOU CAN SEE THIS DIVISION HAS CONSISTENTLY BEEN WILLING TO COMPLY WITH THE MANDATE TO BECOME MORE EFFICIENT AND DO MORE FOR LESS. HOWEVER, I FEEL WE HAVE REACHED THE POINT WHERE FURTHER FUNDING REDUCTIONS WILL NECESSITATE A DECREASE IN PROGRAM SERVICES. WE HAVE ARRIVED AT THIS POINT AT A TIME WHEN ENERGY IS ONCE AGAIN BECOMING A MAJOR ISSUE FOR THE UNITED STATES WITH POTENTIAL SIGNIFICANT IMPLICATIONS TO MONTANA. WE HAVE, THEREFORE, HAD TO REQUEST ADDITIONAL FUNDING TO FULFILL WHAT WE SEE AS OUR OBLIGATIONS TO THE STATE. WE ARE FORTUNATE TO BE ABLE TO MEET THIS INCREASED RESPONSIBILITY WITHOUT INCREASING OUR GENERAL FUND REQUEST.

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THE OTHER MAJOR FUNDING AND PROGRAM RELATIONSHIP THAT EXISTS IN THE ENERGY DIVISION INVOLVES FUNDS EARMARKED IN THE ALTERNATIVE ENERGY ACCOUNT, AND FEDERAL FUNDS, WHICH INCLUDE THE OIL OVERCHARGE FUNDS THAT WERE APPROPRIATED DURING THE LAST SESSION IN HB 621 AND WERE INCORPORATED INTO ONE OF THE ELIGIBLE FEDERAL PROGRAMS DNRC ADMINISTERS. THE CONSERVATION AND RENEWABLE ENERGY BUREAU DELIVERS THE PROGRAMS AND SERVICES THAT ARE SUPPORTED BY THIS FUNDING MIX. I'D LIKE TO BRIEFLY DESCRIBE THE PROGRAMS FOR THE COMMITTEE AND HIGHLIGHT SOME OF THE SERVICES WE'VE PROVIDED THROUGH THEM.

1. THE STATE ENERGY CONSERVATION PROGRAM, THE ENERGY EXTENSION SERVICE, AND THE TECHNICAL ASSISTANCE PROGRAM. THESE PROGRAMS ARE DESIGNED TO PROMOTE ENERGY CONSERVATION AND TO REDUCE THE RATE OF GROWTH OF ENERGY DEMAND. THEY ARE FUNDED BY THE U.S. DEPARTMENT OF ENERGY AND THE BONNEVILLE POWER ADMINISTRATION. STATE MATCHING FUNDS ARE REQUIRED FOR THE DEPARTMENT OF ENERGY PROGRAMS.

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THESE PROGRAMS REACH THOUSANDS OF MONTANANS EACH YEAR WITH ENERGY CONSERVATION INFORMATION. SERVICES ARE TARGETED TO BUILDERS, LENDERS, REALTORS,

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APPRAISERS, FARMERS AND RANCHERS, COMMERCIAL BUILDING OWNERS, INSTITUTIONAL BUILDING OPERATORS, EDUCATORS, AND THE GENERAL PUBLIC. THROUGH THESE PROGRAMS, UP-TO-DATE, TECHNICALLY ACCURATE ENERGY INFORMATION IS PROVIDED.

AS AN EXAMPLE, THE CONSERVATION AND RENEWABLE ENERGY BUREAU WORKED WITH THE AG MECHANICS DEPARTMENT AT NORTHERN MONTANA COLLEGE TO SPONSOR FIVE CLINICS TO IMPROVE THE OPERATING EFFICIENCY OF TRACTORS. 125 FARMERS AND RANCHERS ATTENDED THE CLINICS. THE ENERGY EFFICIENCY OF THE PARTICIPANTS' DEMONSTRATION TRACTORS WAS IMPROVED AND HORSEPOWER INCREASES OF UP TO 12% WERE ATTAINED.

THE BUREAU ALSO WORKED WITH THE REA's, LOCAL CONSERVATION DISTRICTS AND THE SOIL CONSERVATION SERVICE TO CONDUCT 6 IRRIGATION WORKSHOPS. 160 IRRIGATORS AND EQUIPMENT SUPPLIERS ATTENDED. IMPLEMENTING THE MEASURES PRESENTED IN THE WORKSHOPS COULD SAVE \$5-8 PER ACRE PER YEAR.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU'S EFFECTS, THROUGH THESE PROGRAMS, TO IMPROVE ENERGY USE IN NEW HOMES WAS JUDGED TO BE THE BEST IN THE

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COUNTRY BY THE NATIONAL ASSOCIATION OF STATE ENERGY OFFICIALS. THE PACKAGE OF ACTIVITIES THAT WAS HONORED INCLUDED:

WORKING WITH VOCATIONAL-TECHNICAL CENTERS TO TRAIN STUDENTS IN ENERGY EFFICIENT CONSTRUCTION TECHNIQUES.

WORKING WITH THE BUILDING INDUSTRY TO TEACH BUILDERS NEW TECHNIQUES AND MATERIALS FOR ENERGY EFFICIENT CONSTRUCTION.

WORKING WITH THE BLACKFEET TRIBAL HOUSING AUTHORITIES AND THE LOCAL ELECTRIC CO-OP TO HAVE 25 ENERGY EFFICIENT HOMES BUILT IN 1989. ANOTHER 100 HOMES ARE PLANNED ON THIS RESERVATION IN THE NEXT FEW YEARS THAT WE EXPECT WILL BE BUILT TO SIMILAR LEVELS OF ENERGY EFFICIENCY.

WORKING WITH THE MONTANA ASSOCIATION OF REALTORS TO TEACH CONTINUING EDUCATION CLASSES THAT COVER ENERGY EFFICIENCY IN BOTH NEW HOME CONSTRUCTION AND EXISTING HOUSES.

IN ADDITION TO THESE ACTIVITIES, THE BUREAU

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PROVIDES INCENTIVES TO BUILDERS THAT CONSTRUCT HOMES TO THE NORTHWEST POWER PLANNING COUNCIL'S MODEL CONSERVATION STANDARDS.

- 2.) THE RESIDENTIAL CONSTRUCTION DEMONSTRATION PROGRAM IS DESIGNED TO TEST AND/OR DEMONSTRATE THE EFFECTIVENESS OF THESE STANDARDS OR PARTICULAR COMPONENTS OF THE STANDARDS IN MONTANA'S COLD CLIMATE. THE PROGRAM IS FUNDED ENTIRELY BY THE BONNEVILLE POWER ADMINISTRATION. LAST YEAR 25 HOMES WERE CONSTRUCTED AND THEIR ENERGY USE MONITORED UNDER THE PROGRAM.
  
- 3.) BIOMASS UTILIZATION AND COGENERATION PROGRAM  
THE BIOMASS UTILIZATION AND COGENERATION PROGRAM IS A REGIONAL PROGRAM FUNDED BY DOE AND ADMINISTERED THROUGH THE BONNEVILLE POWER ADMINISTRATION. COGENERATION IS THE GENERATION OF ELECTRICITY FROM SUCH THINGS AS WASTE HEAT FROM AN EXISTING INDUSTRIAL PROCESS. THROUGH THE PROGRAM WE PROVIDE TECHNICAL ASSESSMENTS, ECONOMIC FEASIBILITY STUDIES, PRE-ENGINEERING ACTIVITIES AND ENVIRONMENTAL RESEARCH INVOLVING BIOMASS AND COGENERATION. THE MAJOR FOCUS FOR BIOMASS AND COGENERATION IN THIS REGION HAS BEEN

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ASSISTING THE WOOD PRODUCTS INDUSTRY. LAST YEAR THE BUREAU RESPONDED TO OVER 500 INQUIRIES AND PROVIDED TECHNICAL ASSISTANCE THAT HELPED TWO WOOD PELLET PLANTS START OPERATING, HELPED SEVERAL SCHOOLS CONVERT THEIR FURNACES TO BURN WOOD WASTES, AND HELPED TWO SAWMILLS IMPROVE THEIR OPERATIONS SO THEY COULD STAY IN BUSINESS.

4.) THE INSTITUTIONAL CONSERVATION PROGRAM.

THE INSTITUTIONAL CONSERVATION PROGRAM PROVIDES GRANTS TO SCHOOLS AND HOSPITALS TO INSTALL COST-EFFECTIVE ENERGY EFFICIENCY IMPROVEMENTS IN THEIR BUILDINGS. GRANTS ARE MATCHED DOLLAR FOR DOLLAR BY THE INSTITUTIONS RECEIVING THE GRANTS.

ONCE A RETROFIT IS COMPLETE, THE ENERGY COSTS IN THE SCHOOL OR HOSPITAL ARE REDUCED FOR THE LIFE OF THE MATERIALS INSTALLED, WHICH IS OFTEN THE REMAINDER OF THE LIFE OF THE BUILDING.

DNRC RECRUITS PARTICIPANTS, TRAINS AUDITORS AND ANALYSTS, REVIEWS STUDIES FOR ACCURACY, RANKS PROJECTS FOR FUNDING, MONITORS PROJECTS FOR CONTRACT COMPLIANCE AND PROVIDES INFORMATION AND TECHNICAL ASSISTANCE.

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LAST YEAR WE AWARDED \$1.1 MILLION IN GRANTS TO RETROFIT 45 SCHOOL AND HOSPITAL BUILDINGS. WE EXPECT THESE INVESTMENTS WILL SAVE THE PROGRAM PARTICIPANTS \$367,000 IN ENERGY COSTS ANNUALLY. DNRC HAS EVALUATED PAST ENERGY SAVINGS FROM THE PROGRAM AND FOUND THAT THE AVERAGE ANNUAL REDUCTION IN ENERGY COSTS IN PARTICIPATING MONTANA SCHOOLS WAS 26% PER YEAR.

5.) THE RENEWABLE AND CONSERVATION PROGRAM.

THE DEPARTMENT OPERATED THE RENEWABLE ENERGY AND CONSERVATION PROGRAM (RECP) OVER THE PAST TWO YEARS ENTIRELY ON CASH FLOW GENERATED BY LOANS AND GRANTS MADE IN PREVIOUS YEARS. THE PROGRAM DID NOT USE ANY COAL SEVERANCE TAX FUNDS IN THE 1988-89 BIENNIUM AND IS NOT REQUESTING ANY COAL TAX FUNDS FOR THE 1990-91 BIENNIUM.

OVER THE PAST TWO YEARS UNDER RECP, DNRC HAS:

1. PROVIDED THE REQUIRED STATE MATCHING FUNDS THAT BROUGHT \$740,000 IN FEDERAL FUNDS INTO MONTANA UNDER THE FOUR US DEPARTMENT OF ENERGY CONSERVATION PROGRAMS I'VE JUST DESCRIBED FOR

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Energy Division -- General Fund Appropriation History

Summary of Past General Fund Appropriations and Expenditures  
 within the Energy Division

	<u>FY83</u>	<u>FY84</u>	<u>FY85<sup>3/</sup></u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>
Approp. <sup>1/</sup>		591,750	554,943	466,165	467,401	438,152	451,118
Approp. <sup>2/</sup>	670,568	591,750	596,449	450,830	435,581	438,152	
Expenditures	562,430	546,380	515,932	397,427	392,195	435,142	
Reversion	108,138	45,370 (27,068 <sup>4/</sup> )	80,517	53,403	43,386	3,010	

<sup>1/</sup> Source: Montana Appropriations Report (OBPP did not start publishing these reports until the 1985 Biennium)

<sup>2/</sup> Source: Supplemental Financial Schedule Reports

<sup>3/</sup> The appropriation was increased by \$41,506. \$18,302 of carryover funds were transferred from the fiscal year 1984 reversion and \$23,204 of pay plan funds were allocated to the divisions general fund appropriation to provide funding for salary increases.

<sup>4/</sup> \$18,302 of the \$45,370 reversion was carried over into fiscal year 1985 which reduced the fiscal year 1984 reversion to \$27,068.

General Fund appropriations and expenditures within the Energy Division have decreased markedly since the 1983 biennium. The funding decreases are even more dramatic when they are adjusted for inflation. Several significant actions have contributed to a progressive decline in funding and spending. The most notable acts in this progression are listed below.

- a. During fiscal year 1983, the Facility Siting Division and the Energy Division were combined and one division administrator position was eliminated. As a consequence, the newly merged division, the Energy Division reduced its general fund appropriation request to the 1983 Legislature by \$35,880 per year.
- b. The 1985 Legislature eliminated \$40,000 of general funding that previously supported environmental core staff in facility siting.
- c. The 1985 Legislature also reduced general funding for administration of the Energy Division by \$20,000. Alternative Energy funds were substituted. To reflect this change, the

Assistant Administrator position has, subsequently, been funded out of the conservation program #26004.

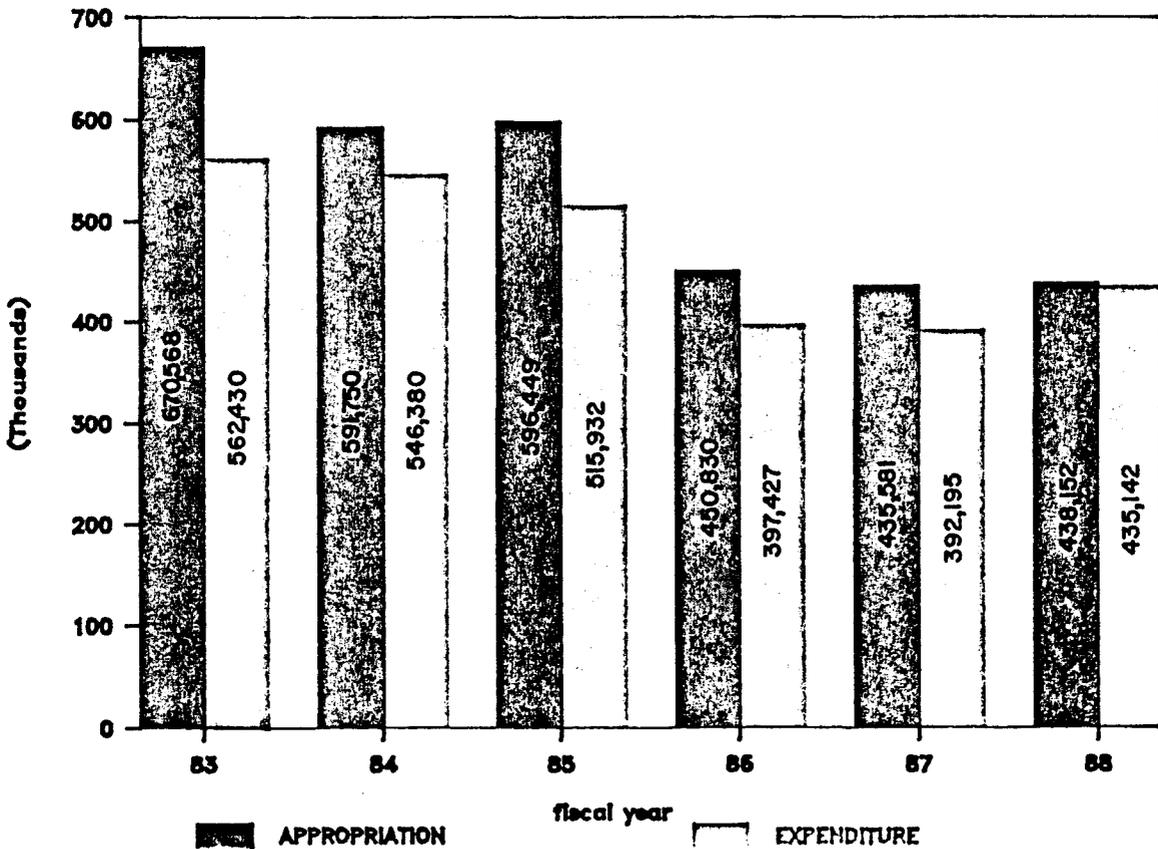
- d. The 1985 Legislature also changed the source of funding for the Institutional Conservation Program match from general funds to Alternative Energy funds.
- e. During fiscal year 1986, the Energy Division's general fund appropriation was reduced from \$466,165 to \$450,830 to comply with the Governor's request for 2 percent cuts.
- f. The 1986 Special Session of the Legislature approved the Governor's proposed across-the-board general fund reduction in fiscal year 1987 and eliminated another \$13,571, by cutting the funding for energy emergency contingency planning in half.
- g. Finally, the 1987 Legislature eliminated all of the remaining general fund support for the facility siting environmental core staff by withdrawing \$34,000 from the program.

Each successive funding change has been faithfully carried forward into the next funding cycle and they are all incorporated into the 1991 biennial budget request. In summary, the 1991 biennial request for general fund appropriations within the Energy Division seeks only to maintain the status quo that has been established through past budget reduction measures.

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# ENERGY DIVISION'S GENERAL FUND

## DNRC APPROPRIATIONS AND EXPENDITURES



## DNRC APPROPRIATIONS AND EXPENDITURES ADJUSTED FOR INFLATION

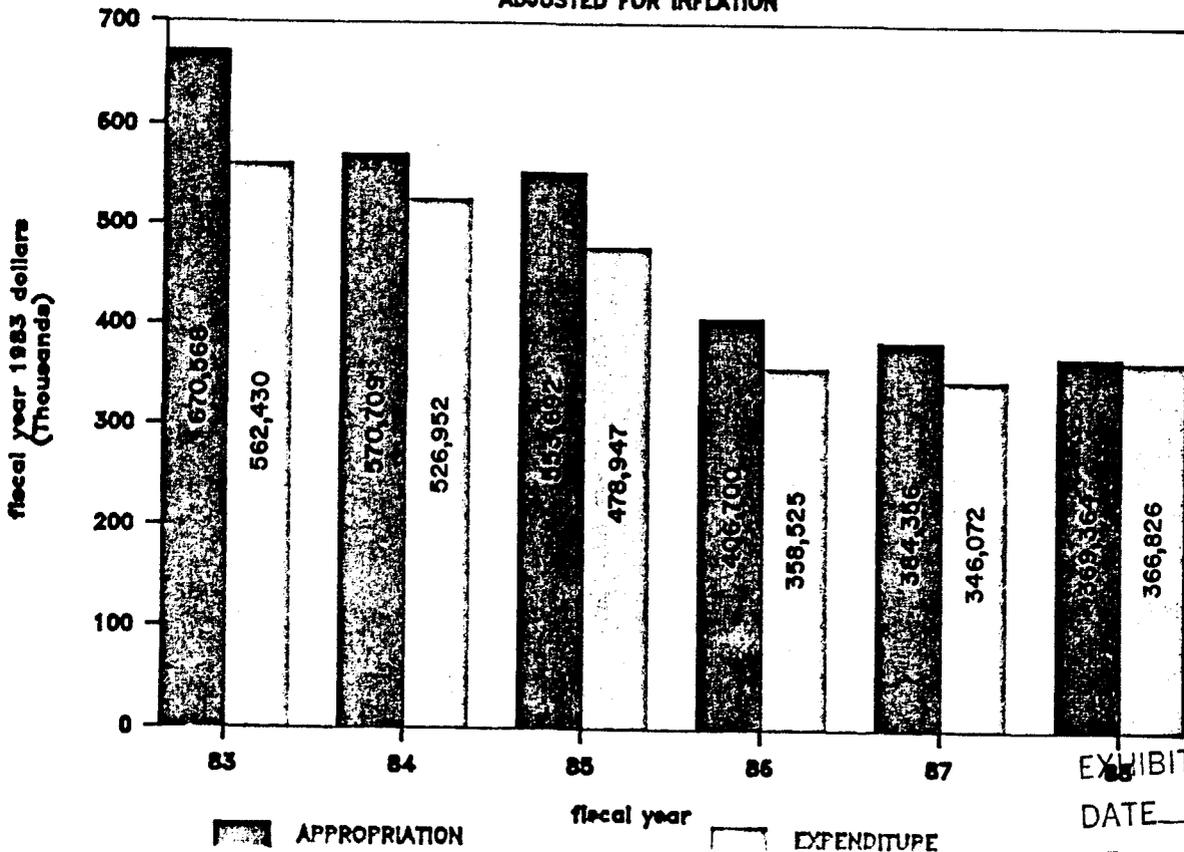
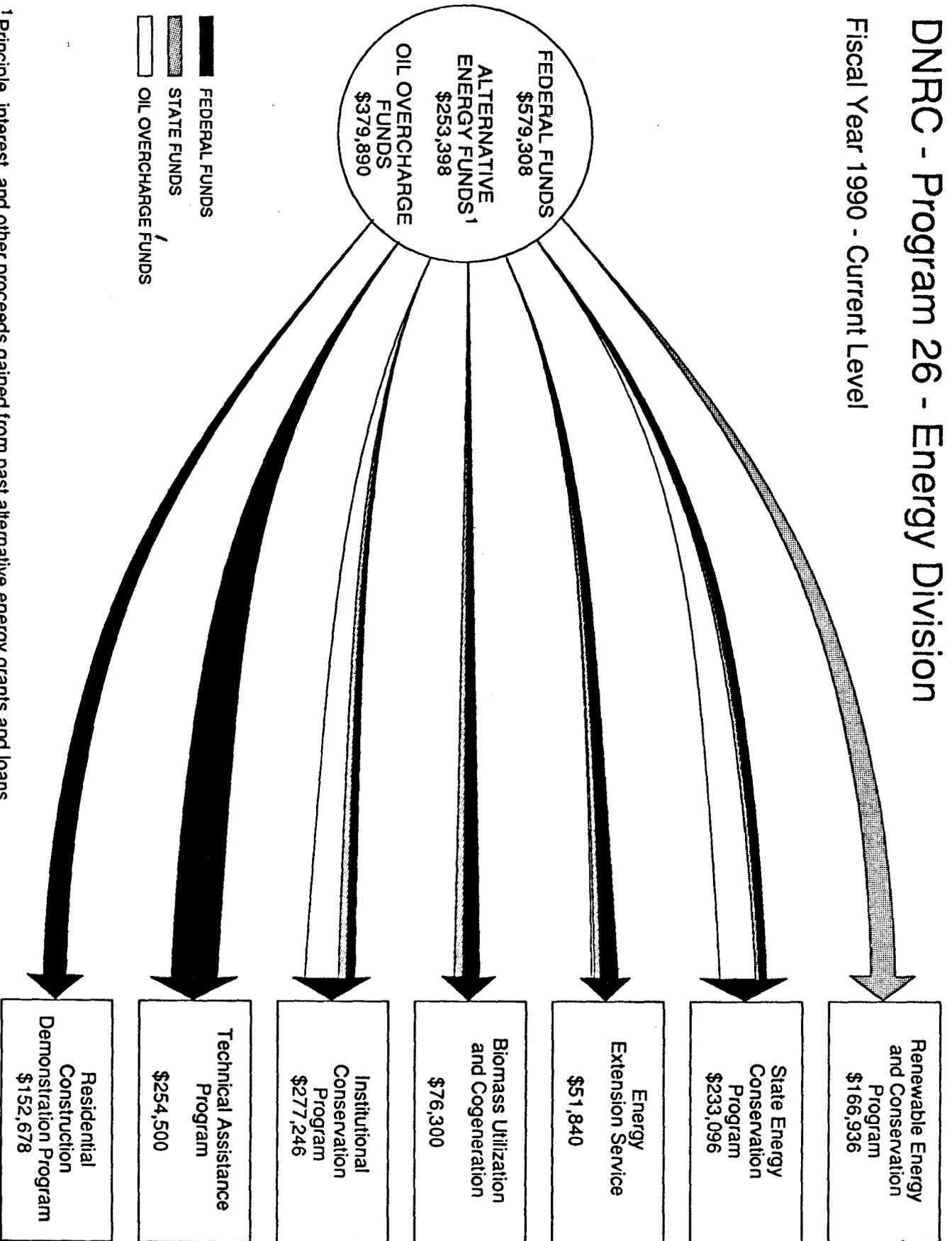


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# DNRC - Program 26 - Energy Division

Fiscal Year 1990 - Current Level



¹ Principle, interest, and other proceeds gained from past alternative energy grants and loans.

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# Renewable Energy and Conservation Program

Montana Department of Natural  
Resources and Conservation  
December 1988

Report for the  
51<sup>st</sup> Montana Legislature

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The Department of Natural Resources and Conservation operated the Renewable Energy and Conservation Program (RECP) over the past two years entirely on cash flow generated by loans and grants made in previous years. The program did not use any coal severance tax funds in the 1988-89 biennium and is not requesting any coal tax funds for the 1990-91 biennium.

Over the past two years under RECP, DNRC has:

(1) Worked on energy-saving retrofits on 13 state-owned buildings. Expected to cut the state's electricity and natural gas bills over \$130,000 a year, the retrofits should pay for themselves in energy savings in six and a half years.

(2) Provided the required state matching funds that brought \$738,887 in federal funds into Montana under four energy conservation programs.

(3) Closed out \$1.2 million worth of renewable energy grants made in previous years.

The legislature established RECP to reduce the state's reliance on fossil fuels. The program originally involved grants to stimulate research, development, demonstration, and education on energy conservation techniques and renewable energy sources, including solar, wind, geothermal, small-scale hydro, and biomass. The program was later expanded to include funding for energy conservation retrofits of state-owned buildings and loans for commercialization of renewable technologies. Because energy conservation and biomass seem to be the most promising resources for Montana, the program emphasized them. In FY 1987, however, DNRC stopped making new grants and loans for several reasons, including state government's revenue shortfall, the general economic conditions in the state, the surplus of electricity in the Pacific Northwest, and the relatively high cost of developing renewable resources. At that time DNRC redirected the program to emphasize energy conservation measures for state-owned buildings. Although RECP has been scaled down, DNRC continues to reduce energy costs in state buildings and to provide Montanans with current information on energy technologies.

## 1. STATE BUILDINGS ENERGY PROGRAM

Funding for energy conservation measures, such as adding insulation and updating heating systems, for 13 state buildings was appropriated in the 1986-87 biennium. These projects will use a total of \$632,418 in Renewable Energy and Conservation Program funding from the 1986-87 biennium; \$91,482 in federal Institutional Conservation Program funds, and \$126,807 in funds from other state agencies.

The work is complete on the Highway Department's Billings Headquarters Complex and three buildings at Montana State University in Bozeman (Romney Gym, Lewis Hall, and Gaines Hall). DNRC engineers are analyzing the

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energy bills for these four projects; they are also working with the building operators to make sure the state gets all the energy savings possible. Although they don't have a full year's data yet on all of the buildings, the engineers estimate the four projects will save the state \$52,900 a year on its electricity and natural gas bills.<sup>1</sup>

Contractors are designing and installing energy conservation measures on six residence buildings at the Developmental Center in Boulder, the dairy dormitory at the State Prison in Deer Lodge, the Social and Rehabilitation Services Department Building in Helena, and the Plentywood Armory. The energy conservation measures on these buildings are expected to save the state another \$79,635 per year on energy costs, cutting the energy bills for those buildings 44 percent. The \$346,080 worth of energy conservation measures on these buildings should pay for themselves in energy bill savings in an average of 4.3 years.

The buildings that received retrofits were chosen from 200 state-owned buildings with relatively high energy use. After an in-depth energy analysis of 22 buildings, DNRC selected the most cost-effective retrofit projects.

DNRC now is using oil overcharge funds<sup>2</sup> for energy-saving retrofits. In 1987 the legislature appropriated \$1.985 million of oil overcharge funds to establish a revolving loan program for energy retrofits of state buildings.

The legislature appropriated another \$120,000 in overcharge funds to conduct energy studies on state buildings to be retrofitted. With these funds DNRC this year signed contracts with four engineering firms to perform campus-wide studies of Warm Springs State Hospital, Montana State Hospital at Galen, the Montana Developmental Center at Boulder, and the Center for the Aged at Lewistown. Preliminary reports on the first three campuses indicate that an investment of about \$3 million among the three campuses could yield as much as \$500,000 a year in energy savings for the state.

Retrofits on only one or two of these campuses could be funded with the oil overcharge revolving loan fund, leaving two or three campuses unretrofitted, and the state owns another 10 million square feet of buildings that need energy conservation measures. The State of Montana now spends about \$13 million a year to heat, cool, light, and operate its buildings. Based on the results achieved in earlier retrofits of Montana buildings, the state's energy bills can be reduced by \$3-\$6 million a year with an investment of \$10.3 million in energy conservation measures.

Since the revolving loan fund would allow us to retrofit only one or two buildings a year, the state will continue to pay higher than necessary electricity and natural gas bills for years, adding up to millions of dollars. To enable the state to capture more of these savings, DNRC will propose to the 1989 legislature using the state's tax-exempt bonding authority to raise capital for energy conservation measures on state buildings. The program would be phased in over several years. The

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results achieved in previous Montana projects clearly show that cost-effective energy conservation measures are a lucrative and reliable enough investment to merit use of state's bonding authority.

Once established, this program will be revenue neutral to state government and self sustaining. Operating and installation costs will be funded through bond sales, and energy savings will be used to repay the bond obligation. Once the bonds are retired, state government would continue to realize the savings throughout the rest of the life of the measures.

## 2. FEDERAL FUNDS

A portion of the Renewable Energy and Conservation Program funds is used as the required state matching funds for four federal programs--the State Energy Conservation Program, the Energy Extension Service, the Institutional Conservation Program, and the Biomass Utilization and Cogeneration Program. These energy conservation programs provide many of the services that were provided through RECP in previous years.

Under these four programs, DNRC provides services to a wide variety of Montanans, including: homeowners, renters, builders, wood products manufacturers and users, teachers, farmers, ranchers, home buyers, real estate agents, appraisers, lenders, commercial building owners and operators, engineers, architects, entrepreneurs, schools, hospitals, local governments, utilities, and other state agencies.

### STATE ENERGY CONSERVATION PROGRAM & ENERGY EXTENSION SERVICE

Conservation and renewable energy technologies are changing rapidly; the State Energy Conservation Program and the Energy Extension Service provide the citizens of Montana accurate, up-to-date information on these technologies. DNRC is providing these services throughout the state with \$51,920 in RECP funds, which are the required match for \$285,236 in federal funds in the 1988-89 biennium. In addition, these federal funds are used to administer the \$3,713,355 oil overcharge funds that were awarded to the state and appropriated to these programs by the 1987 legislature.

DNRC's comprehensive approach to encouraging energy conservation in new homes, carried out with funding from these programs and others, was named the best public information-energy awareness project in the country by the National Association of State Energy Officials this year. And DNRC's publication, "Warm Places: A Sampling of Energy-Efficient Montana Homes," won the top award in the booklets and manuals competition at the U.S. Department of Energy's 1988 All-States Energy Conference.

Another indication of the high caliber of DNRC's energy conservation programs is the fact that both Montana Power Company and the Western Area Power Administration have hired DNRC to conduct workshops for their customers.

## INSTITUTIONAL CONSERVATION PROGRAM

The Institutional Conservation Program (ICP) used approximately \$1.1 million in federal and oil overcharge funds this biennium for retrofit grants for schools and hospitals throughout the state. The institutions receiving the ICP grants matched them with over \$1.4 million for the retrofits. RECP provided \$62,988 in matching funds to administer the program this biennium.

Over the last ten years about \$6.6 million in ICP funds were spent on over 100 Montana institutions. That money was matched with more than \$6.6 million in funds from the institutions. Those investments generate an estimated \$4.9 million each year in energy savings for participating Montana institutions--and Montana taxpayers.

## BIOMASS UTILIZATION AND COGENERATION

The renewable energy resource that appears most promising for Montana is biomass, such as mill and forest residues, spoiled grains, manures, trash, and biogas from sewage plants. The Biomass Utilization and Cogeneration Program provides technical assistance and information to Montanans who want to use biomass as a source of energy and financial assistance for biomass technology development. Funded through the Bonneville Power Administration, the biomass program is using \$12,349 in Renewable Energy and Conservation Program funds as part of the required match for \$180,323 in federal funds. The biomass program requires that one-third of the money spent in each state be state money. DNRC reduced the amount of RECP matching funds required this biennium by counting as part of the required match some of the RECP grants awarded in previous years and still being paid out by DNRC. Since most of the renewable energy grant projects are complete, more RECP funds will be needed for the federal match in future years.

Among the projects funded or partially funded with this money are: using waste wood from logging projects to fuel large boilers or to make clean-burning wood pellets for residential wood stoves; evaluating the economic feasibility of small-scale wood chip and straw-burning equipment for Montana; and inventories of biomass resources in the state that could be used for energy. The biomass program also has provided grant funds to Renewable Technologies, Inc. of Butte for a commercial demonstration of a process for converting wood, straw, or trash into fuel alcohol. The process uses an enzyme developed with an RECP grant.

While answering over 500 biomass inquiries, DNRC engineers provided technical assistance which included helping start two wood pellet plants, helping several schools convert their furnaces to burn wood wastes for fuel, and helping two sawmills stay in business.

### 3. GRANTS AND LOANS

Although no renewable energy grants or loans have been made for new projects since FY 1987, DNRC did award a total of \$897.50 this biennium to provide additional funds for an on-going wind monitoring project. The funds are for gathering additional information and doing more analysis of data gathered under previous years' grants. DNRC also awarded \$20,172 in grants for the state buildings portion of the program this biennium.

In FY 1988 DNRC completed 15 renewable energy grants awarded in previous years. Another grant was closed out in the first half of FY 1989, and nine grant projects were still underway in December 1988.

Grants completed this biennium include: monitoring the indoor air quality, energy use, and heating and ventilating systems in superinsulated houses in Great Falls, Billings, and Lewistown; a study of the economic feasibility of using wind-powered irrigation systems in Montana; a demonstration of the cost effectiveness of installing energy conservation measures while retaining the historic aspects of the old Anaconda City Hall; construction of a prototype unitary steam engine that will burn several different types of renewable resources; and wind monitoring at Livingston, Ennis, Whitlash, Augusta, Ringling, and Whitehall.

The grants projects still underway include: using safflower oil as a substitute for diesel fuel; analyzing wind monitoring data from the Livingston Bench; and designing and building a sawdust-fired kiln to dry logs for log homes.

#### REPAYABLE GRANTS

Over the next few years, DNRC staff members will continue to closely monitor the results of several projects since the grants' terms call for the recipients to repay their grants if the projects become commercially successful.

One of the repayable grants involves a \$39,186 award to a Potomac man for the design, construction, and demonstration of a commercial-sized furnace that can burn waste wood, chopped tires, oil tank sludge, municipal solid waste, and filter press waste from paper processing. In September a Los Angeles firm began building a series of four commercial prototypes of the furnace. The first prototype was a stainless steel model, which was tested for 60 days. Each successive prototype will be built with modifications based on testing. Columbia University has expressed interest in buying two of the furnaces to burn sewage sludge for heating digesters at the North River Water Pollution Control Center on the Hudson River.

Three of the repayable grants went to Renewable Technologies, Inc. (RTI) of Butte. Two grants totalling \$418,473 were to develop an enzyme to make fuel alcohol from grain without cooking. In addition to producing

ethanol, the enzyme also makes barley more digestible for livestock. The enzyme was tested as a feed supplement for chickens in Canada and hogs in Germany; the Canadian tests indicate the enzyme-enriched barley gives better feed conversion than more expensive grains. RTI and a Minnesota firm want to package the enzyme with other enhancements for a super chicken feed additive for barley. RTI has built a pilot reactor that can produce 1,000 pounds of enzyme a day. Montana agricultural products are used to make both the enzyme and the feed or ethanol the enzyme helps create.

RTI also received a \$69,962 repayable grant to develop two other ambient temperature enzymes--ligninase and cellulase. These enzymes break down the lignin bonds that surround cellulose, making it economically feasible to produce fuel alcohol from wood, straw, and trash. RTI plans a commercial-scale demonstration of the two enzymes later this year at either the Solar Energy Research Institute in Boulder, Colorado, or the Tennessee Valley Authority's testing facility at Muscle Shoals, Alabama. The demonstration will help identify the costs of producing ethanol with the enzymes on a commercial scale. RTI estimates that using ligninase and cellulase can bring the cost of making ethanol from wood, straw, and trash down below \$1 a gallon.

RTI has used the system developed under the DNRC grants with different organisms and different products and now has contracts with several large corporations, including International Paper, to develop enzymes for food processing, paper production, biological insecticides and herbicides, starch processing, and dealing with industrial and municipal wastes.

#### LOANS

DNRC staff members continue to monitor 15 loans for projects such as expanding a wood pellet plant at Darby, a small hydro-electric plant on an irrigation system near Red Lodge, and expansion of a Bozeman business that sells and installs solar and conservation products. All of the loans are scheduled to be repaid by August 27, 1996. Ten of the loans are being paid back on a regular schedule, and five loans are in various stages of renegotiation or foreclosure.

#### CONCLUSION

The Renewable Energy and Conservation Program has changed substantially to meet rapidly changing technology and economic circumstances over the last decade. Lower oil prices have undermined the economic competitiveness of many renewable energy technologies. Through the years DNRC has concentrated on the most promising, cost-effective renewable technologies and on cost-effective conservation improvements to state-owned buildings. As state budgets tightened, DNRC has relied increasingly on federal funds to provide these high priority services, using limited state money primarily to leverage federal dollars.

In addition to cutting the state's energy bills, the Renewable Energy and Conservation Program continues to reap the benefits of grants and

loans made in previous years. Projects such as the enzyme research by RTI in Butte and the commercial-scale biomass furnace developed in Potomac continue to provide jobs and may provide grant repayments as the technologies are commercialized.

Despite the current economic conditions, investments in energy efficiency and renewable energy can be cost effective if properly structured. Nationally the growing concern over global warming and acid rain is placing renewed emphasis on energy efficiency. With a minimal investment of funds generated through grant and loan repayments, DNRC continues to provide information, technical assistance, energy savings, and increased energy efficiency throughout Montana.

#### FOOTNOTES

<sup>1</sup>These savings projections are down from the \$64,000 originally predicted for these projects because: 1) some of the energy-saving measures weren't installed; 2) Montana Power Company lowered the rate it charges for natural gas; and 3) activities carried out in one building were changed.

<sup>2</sup>As the result of overcharges on the sales of domestic crude oil, the federal courts ordered or approved settlements requiring the repayment of the total amount of overcharges plus interest into an escrow account to be distributed by the U.S. Treasury to the states. The Montana Legislature appropriated some of the state's oil overcharge money to DNRC for energy programs.

LEGISLATIVE ACTION

AGENCY: Department of Natural Resources and Conservation

PROGRAM: Energy Division

BUDGET ITEM	Fiscal 1990		Fiscal 1991		Difference
	Executive	LFA Curr Lvl	Executive	LFA Curr Lvl	
FTE	40.00	39.00	40.00	39.00	1.00
Personal Services	\$1,100,415	\$1,053,611	\$1,102,587	\$1,055,704	\$46,883
Operating Expenses	3,024,940	3,012,926	1,338,889	1,322,355	16,534
Equipment	15,172	15,447	11,929	12,704	(775)
Non-Operating	260,939	295,989	260,938	296,008	(35,070)
<b>TOTAL EXPENSES</b>	<b>\$4,401,466</b>	<b>\$4,377,973</b>	<b>\$2,714,343</b>	<b>\$2,686,771</b>	<b>\$27,572</b>
=====					
FUNDING					
General Fund	\$0	\$439,315	\$0	\$441,576	(\$41,576)
State Special Rev	1,649,978	1,274,460	1,654,970	1,273,326	381,644
Federal Revenue	2,751,488	2,664,198	1,059,373	971,869	87,504
<b>TOTAL FUNDING</b>	<b>\$4,401,466</b>	<b>\$4,377,973</b>	<b>\$2,714,343</b>	<b>\$2,686,771</b>	<b>\$27,572</b>
=====					

General Fund

\$ -0- \$20,160

FTE

Gross

1. Administrative Travel

The travel for the division was increased over fiscal 1988 expenditures. The increase was primarily in federally funded travel. Table F details the increase in travel by type of fund.

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Table F  
Energy Administrative Travel

	<u>Fiscal 1988</u>	<u>Fiscal 1990</u>	<u>Difference</u>
General Fund	\$ 2,661	\$ 3,908	\$ 1,247
Federal Fund	<u>4,971</u>	<u>15,000</u>	<u>10,029</u>
Total Travel	<u>\$ 7,632</u>	<u>\$ 18,908</u>	<u>\$ 11,276</u>

<u>FTE</u>	<u>General Fund</u>	<u>Gross</u>
1.00	\$ -0-	\$ 52,899

2. Position Transferred From Centralized Services

The executive budget proposes transferring one position from Centralized Services to the Energy Division. The LFA current level did not include the transferred position because the responsibilities of the position have changed. The executive budget also proposes that the position in the Energy Division be financed with oil overcharge funds rather than general fund as the position was financed in the Centralized Services Division.

3. Consulting Services, Printing, and Travel

-0- 16,163

4. Filing and Printing of Facility Siting Rules

-0- 7,090

5. Conservation Education Equipment and Grants

-0- (86,061)

6. Funding shift from alternative energy funds to federal funds

-0- -0-

\$58,307 in fiscal 1990, and  
\$58,486 in fiscal 1991

**Boilerplate Language**

The following boilerplate language has been requested by the executive:

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41 125,000

The department may expend up to \$25,000 it may receive from the Montana Power Company and up to \$20,000 it may receive from the Western Area Power Administration for the purposes of conducting builder training and agricultural workshops.

Subcommittee Decisions on Department of State Lands

General Fund Comparison

	Fiscal 1990		Fiscal 1991	
	Executive	Subcommittee Difference	Executive	Subcommittee Difference
Central Management	1,354,116	1,356,595	1,338,288	1,324,690
Reclamation Division	242,971	829,237	245,964	829,867
Land Administration	599,600	595,214	587,879	583,512
Resource Development	0	0	0	0
Forestry Division	4,929,132	5,146,967	4,848,810	5,081,244
		217,835		232,434
Budget Modifications				
Reclamation	0	0	0	0
Land Administration	77,633	78,583	52,937	53,889
Forestry	408,896	411,803	379,514	384,602
		2,907		5,088
Total General Fund	7,612,348	8,418,399	7,453,392	8,257,804
		806,051		804,412

Gross Fund Comparison

	Fiscal 1990		Fiscal 1991	
	Executive	Subcommittee Difference	Executive	Subcommittee Difference
Central Management	1,847,399	1,832,396	1,828,875	1,800,664
Reclamation Division	9,823,051	9,928,200	9,719,954	9,720,835
Land Administration	599,600	595,214	587,879	583,512
Resource Development	280,477	284,488	278,652	282,673
Forestry Division	8,202,824	8,416,979	8,125,799	8,354,572
		214,155		228,773
Budget Modifications				
Reclamation	322,714	325,346	177,814	180,447
Land Administration	77,633	78,583	52,937	53,889
Forestry	671,502	575,513	586,515	525,950
		(95,989)		(60,565)
Total Gross Fund	21,825,200	22,036,719	21,358,425	21,502,542
		211,519		144,117

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