

49th LEGISLATURE - SPECIAL SESSION II
MINUTES OF THE MEETING
APPROPRIATIONS COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

The meeting of the Appropriations Committee was called to order by Vice Chairman Donaldson on March 26, 1986 in Room 104 of the State Capitol at 9:30 a.m.

ROLL CALL: All members were present except Chairman Bardonoue, who was excused, and Representative Spaeth, who was absent.

HOUSE JOINT RESOLUTION 1 was heard; EXECUTIVE ACTION was taken on HOUSE JOINT RESOLUTION 1.

HOUSE JOINT RESOLUTION 1: "...CONSENTING TO THE CONSTRUCTION OF A FACILITY AT MONTANA STATE UNIVERSITY THAT WILL CONVERT ITS HEATING PLANT TO ENABLE IT TO UTILIZE THE MOST COST-EFFECTIVE FUELS."

Representative Dorothy Bradley, sponsor, rose and presented the resolution. She explained that the measure would enable MSU to look into alternative, cost-effective ways of heating the entire plant. There were three different options: (1) wood pellets; (2) interruptible and IMR gas rates, and (3) coal pellets. She explained that using the interruptible and IMR rates would require a back-up propane system (EXHIBIT A); this would take retrofit dollars. She explained that competition had to be available in order to qualify for the IMR rate. A backup propane system would cost \$168,000, with a 7-year loan at 8.5%. For the wood pellet investment \$600,000 would be needed, with a \$117,000 annual payment on a 7-year loan at 8.5%. Coal pellets would be a major investment, and calculations hadn't been provided. The savings to MSU would be between \$20,000 and \$.25 million per year. She pointed out that the resolution was open-ended and wouldn't put the Legislature in the position of making a decision; the decision would come after careful analysis of the bids.

Commissioner of Higher Education Carrol Krause then rose in support of the resolution, stating that the Board of Regents had authorized MSU to seek legislation for the conversion to some alternative energy sources. This resolution allows the University and the Board of Regents to proceed looking into this matter.

William Tietz, President of MSU, then spoke (EXHIBIT B). Their concern has been that they have had to find dollars

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within their own system to help with the maintenance problem. He calculated that the deferred maintenance at MSU amounted to almost \$16 million. It was his hope that the savings realized from the proposed project could be utilized to help deal with some of these long-term maintenance needs.

Representative Bradley then introduced several persons to the Committee who were available to answer questions, as follows: Scott Seacat, Legislative Auditor, Jack Noble, Deputy Commissioner for Fiscal Affairs, Marilyn Wessel, MSU Communications Director, Bruce Shively, MSU Budget Office, Hal Hopequist, Mountain Energy of Livingston, Doug Crandall, Brand S Lumber Company of Livingston, Bill Chandler, Stone Forest Products, and Tucker Hill, Wood Products Association.

Robert VanDerVere, a concerned citizen lobbyist, spoke up in favor of the resolution, specifically the wood pellet proposal.

Karla Gray, Montana Power Company, rose in support of the resolution. She added that Dave Johnson, Vice President of Gas Operations, Steve Winter, General Manager of Revenue Requirements, and John Murphy, General Manager of Industrial Marketing and Contracts, were available to answer questions.

Tucker Hill, Executive Director of the Montana Wood Products Association, clarified that all those available to answer questions were proponents of the measure.

Opponents: None.

Committee Discussion:

Representative Thoft wanted to know, if MSU went to wood pellets, what the cost would be to go back to the present system if the resource ran out, and he was told there would be no additional cost.

In response to Representative Peck, Dr. Tietz said that the coal pellet proposal had only been received a few days earlier, and there may be a problem with meeting clean air standards and retrofitting of the burner system.

Mr. Johnson explained to Representative Menahan how the IMR rate had evolved. The rate had been proposed due to the presence of competition from other sources of alternative energy for the business of some of Montana Power's large customers, and wasn't the result of MSU's proposed changes. At present, there were two customers using the IMR rate. In further response to Representative Menahan, Mr. Johnson said that theoretically it was true that when the power company lost a customer, costs went back to the other customers.

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In response to Representative Connelly, Mr. Hopequist said that there were about 150 of these types of wood pellet-burning installations around the U.S. at present.

Representative Quilici asked Mr. Bob Nelson, Chief Counsel for the Public Service Commission, in the event the IMR rate had to be extended for more than one year, what would it take the PSC to implement that. Mr. Nelson said that they had in the past filed contracts as rates and assigned them tariff numbers; however, the Commission has maintained that it has the ability to set just and reasonable rates and isn't bound by private contractors. However, in the past the Commission has been very reluctant to change a contract agreement and has basically grandfathered existing contracts.

In response to Representative Quilici, Scott Seacatt said the numbers in their report were the best estimate at the time; a good handle on what the price per ton for wood pellets would be couldn't be had until bids were let. It was brought out that at present, the base load price per MCF of gas was \$3.83; this was without the IMR rate.

Representative Fritz wanted to know how much it would cost to build the facility and where the money would come from. Dr. Tietz said the cost of retrofitting the boiler for propane had been estimated at about \$170,000; the cost of the retrofit and storage for the wood pellets would be about \$600,000. It was intended that the energy budget for MSU remain constant, and the differential from operating at the lower rate would be used to pay off the borrowed dollars used to develop the capital investment.

In response to Representative Swift, Doug Crandall said they depended heavily on Stone Container Corporation at present to purchase their wood residue, and they would like to have another supplier to take the material that they are unable to sell to Stone Container. Bill Chandler said they were significantly over-supplied in this area. Mr. Seacatt said that his office felt there would be an adequate supply of the product to take care of MSU's anticipated needs.

In response to Representative Winslow, Dr. Tietz said he had no recollection of MSU ever borrowing from an institution before. He added that they would look for the most economical way of borrowing the money, including the possibilities of non-profit foundations and research

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and development institutes, etc. At present neither one of those organizations has \$600,000, however. The \$170,000 may be able to be handled even through the institution's savings, however, or a foundation support program.

In response to Representative Menahan, Mr. Seacat said their per ton estimate included the cost of delivery. Representative Menahan wanted to know if additional staff would have to be hired back to maintain the wood pellet burning system and keep it burning. Dr. Tietz said they didn't anticipate a change in their personnel.

Representative Peck expressed concern that there were no outer limits on the cost of implementing this resolution. Representative Bradley said that the Board of Regents would be giving the matter a very careful scrutiny and this probably would not happen. Mr. Krause said the Board of Regents would have the final word on this, but beyond \$600,000 there wouldn't be a real potential for paying the loan back, and this would clearly be a limiting factor.

Representative Donaldson was assured by Representative Bradley that the wood products industry interests were not a primary consideration in deciding which way to go in the matter. Representative Donaldson asked Dr. Tietz if those campus buildings maintained and funded through non-General Fund sources were part of the 64% of State buildings that were University buildings, and he said this was the case.

Representative Bradley distributed a sheet which helped explain what "most cost effective" meant and which factors were being considered (EXHIBIT C). The sheet had been prepared by Ms. Gail Kuntz, Environmental Quality Council.

Representative Bradley then closed. She stressed that much work had been put into making sure that the resolution hadn't been tilted in favor of any of the parties involved in the matter. The hearing on HOUSE JOINT RESOLUTION 1 was closed.

(Tape 4:A:000)

E X E C U T I V E A C T I O N :

HOUSE JOINT RESOLUTION 1: Representative Lory moved that HJR 1 DO PASS; Representative Swift seconded the motion. Representative Winslow made a substitute motion that the resolution be amended as follows: "Be it further resolved

that efforts will be made to receive funding from all possible charitable and funding sources prior to obtaining the funding through conventional lending." Discussion took place regarding the necessity of the amendment; the question was called for on Representative Winslow's motion; motion carried 13 to 5; see Roll Call Vote. Discussion then took place on the original motion. Representative Peck said he would vote against passage of the resolution because of a lack of any Legislative oversight over the amount of expenditure to be allowed. Mr. Seacat said he had been asked to do a follow-up to review the bid-letting and contracting process and was to report back within one year. The question was then called for on the motion that HJR 1 DO PASS AS AMENDED; motion carried with Representative Peck opposed.

The meeting was adjourned.



Representative Francis Bardanoue Chairman

DR

DAILY ROLL CALL

HOUSE APPROPRIATIONS COMMITTEE
 SPECIAL SESSION II
 49th LEGISLATIVE SESSION -- 1936

Date 3/26 9:30 A.M.

NAME	PRESENT	ABSENT	EXCUSED
BARDANOUE, FRANCIS - Chairman			✓
DONALDSON, GENE - Vice Chairman	✓		
BRADLEY, DOROTHY	✓		
CONNELLY, MARY ELLEN	✓		
ERNST, GENE	✓		
FRITZ, HARRY	✓		
HAND, BILL	✓		
LORY, EARL	✓		
MANUEL, REX	✓		
MENAHAN, WILLIAM	✓		
MILLER, RON	✓		
MOORE, JACK	✓		
NATHE, DENNIS	✓		
PECK, RAY	✓		
QUILICI, JOE	✓		
REHBERG, DENNIS	✓		
SPAETH, GARY		✓	
SWIFT, BERNIE	✓		
THOFT, BOB	✓		
WINSLOW, CAL	✓		

ROLL CALL VOTE

HOUSE APPROPRIATIONS

COMMITTEE

DATE 3/26

BILL NO. HJR 1

NUMBER _____

NAME	AYE	NAY
BARDANOUVE, FRANCIS		
DONALDSON, GENE	✓	
BRADLEY, DOROTHY	✓	
CONNELLY, MARY ELLEN		✓
ERNST, GENE	✓	
FRITZ, HARRY		✓
HAND, BILL	✓	
LORY, EARL		✓
MANUEL, REX		✓
MENAHAN, WILLIAM		✓
MILLER, RON	✓	
MOORE, JACK	✓	
NATHE, DENNIS	✓	
PECK, RAY	✓	
QUILICI, JOE	✓	
REHBERG, DENNIS	✓	
SPAETH, GARY		
SWIFT, BERNIE	✓	
THOFT, BOB	✓	
WINSLOW, CAL	✓	

TALLY

13 5

Secretary

Chairman

MOTION: Amend HJR 1 - Winslow proposal

ROLL CALL VOTE

HOUSE APPROPRIATIONS

COMMITTEE

DATE

BILL NO.

NUMBER

NAME	AYE	NAY
BARDANOUVE, FRANCIS		
DONALDSON, GENE	✓	
BRADLEY, DOROTHY	✓	
CONNELLY, MARY ELLEN	✓	
ERNST, GENE	✓	
FRITZ, HARRY	✓	
HAND, BILL	✓	
LORY, EARL	✓	
MANUEL, REX	✓	
MENAHAN, WILLIAM	✓	
MILLER, RON	✓	
MOORE, JACK	✓	
NATHE, DENNIS	✓	
PECK, RAY		✓
QUILICI, JOE	✓	
REHBERG, DENNIS	✓	
SPAETH, GARY		
SWIFT, BERNIE	✓	
THOFT, BOB	✓	
WINSLOW, CAL	✓	

TALLY

17 1

Secretary

Chairman

MOTION:

HJR 1 Be adopted as

amended

STANDING COMMITTEE REPORT

MARCH 26 19 86

Mr. Speaker: We, the committee on APPROPRIATIONS
report HOUSE JOINT RESOLUTION 1

☒ do pass ☐ be concurred in ☒ as amended
☐ do not pass ☐ be not concurred in ☐ statement of intent attached

Rep. Gene Donaldson, Vice-Chairman

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES
OF THE STATE OF MONTANA CONSENTING TO THE CONSTRUCTION OF A FACILITY
AT MONTANA STATE UNIVERSITY THAT WILL CONVERT ITS HEATING PLANT TO
ENABLE IT TO UTILIZE THE MOST COST-EFFECTIVE FUELS.

BE AMENDED AS FOLLOWS:

1) Page 2.

Following: line 3

Insert: "That efforts will be made to receive funding from all
possible charitable and funding sources prior to obtaining
the funding through conventional lending."

First reading copy (white)
color

VISITORS' REGISTER

Appropriations

COMMITTEE

BILL NO. HJR 1DATE 3/26/86

SPONSOR _____

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
ROBERT VAN DYKE	FEELER	X	
Pete Story	SD 41	X	
William A. Chandler	STONE FOREST PRODUERS	X	
Tucker Hill	Mt. Wood Producers Assn	X	
Don Spandall	Brand S Livingston	X	
Jim Hill	Mountain Energy	X	
Karlson May	MPC	X	
Don Ingels	Mt. C of C Helena	X	
STEVEN Winter	TPC	X	
John Murphy	MPC	X	
David Jackson	MPC	X	
Bruce Shumby	MSU	X	
Marilyn Woods	MSU	X	
Bill Tully	MSU	X	
Renate Fiske	Big Sandy	X	
Bob Ramey	HD 22	X	
Dan Elliott	PSC		
Bob Nelson	PSC		
Bill Merwin	NMC		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

COMMITTEE

DATE _____

SPONSOR _____

[illegible]

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

HJR 1

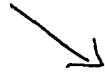
EXHIBIT A
Appropriations Bradley
3/26/86

Base load (gas-only load)

\$ 4.285 / mcf



Interruptible

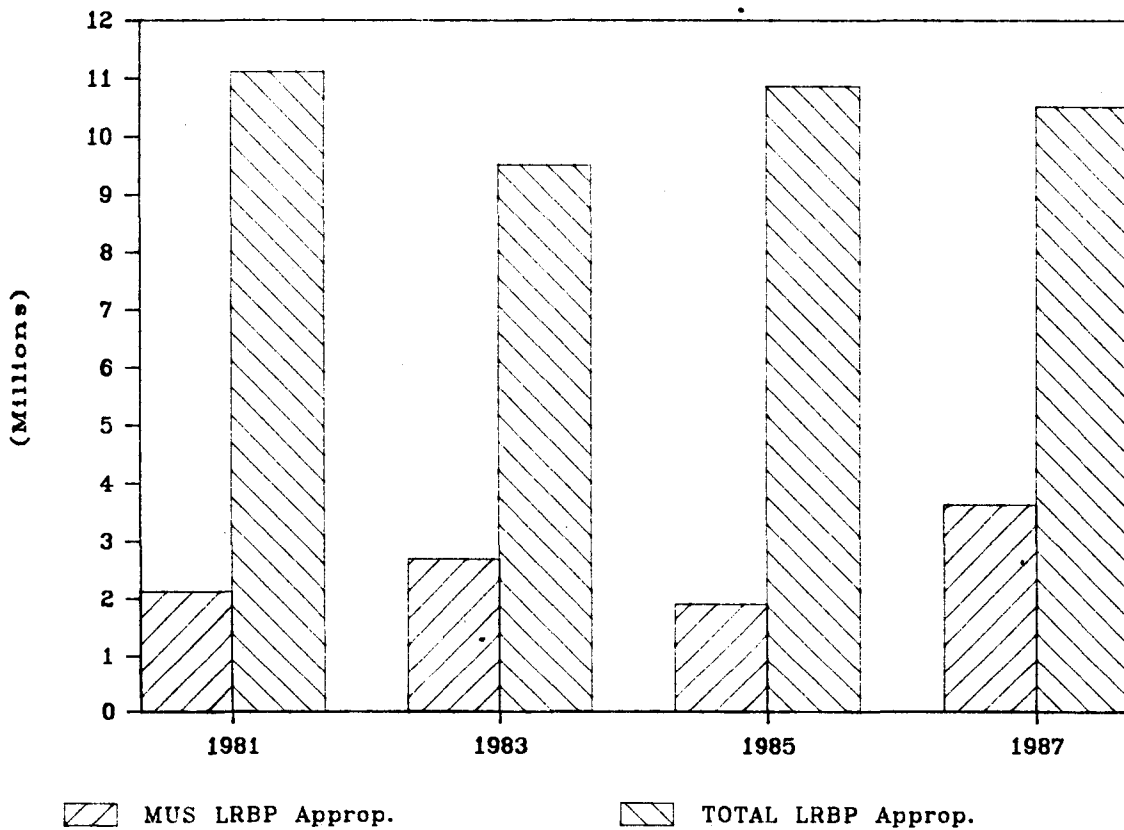


IMR rate (potential
alternative)

\$ 3.50 / mcf

Depends on competition

MUS Maintenance Appropriations (LRBP)



The Montana University System has 64% of the state buildings. However, the university system has received an average of 24.8% of the maintenance money from the Long Range Building Capital Projects Fund over the past four bienniums.

Calculating Cost Effectiveness in MSU Heating System Alternatives

In determining which fuel is the most appropriate choice for MSU's heating system, the Legislature will, in HJR 1, enable MSU to calculate the cost-effectiveness of each fuel alternative.

--- This type of analysis is inherently based on a comparison of alternatives. The "cost effective" alternative is the one that can most reliably meet a given need at least cost for the longest period of time.

---The analysis can be broken down into at least the following five key components:

I. Variables relating to cost and engineering performance, including, but not limited to:

- i. Cost of fuel
- ii. Fuel use/year
- iii. BTU value of fuel
- iv. Fuel conversion efficiency
- v. Interest rates and loan payback period
- vi. Reliability of fuel supply
- vii. Retrofit and other capital costs of conversion
- viii. Maintenance/operational costs

II. Length of time analyzed

Conversion of the heating system is a long term commitment, potentially extending for at least the useful life of the alternative that is chosen. Also, a number of key variables may reasonably be expected to change over time. Therefore, it appears prudent to examine and compare the costs of all alternatives for several years into the future.

III. Sensitivity analysis

The question to be answered is: which variables exert the greatest influence on the "bottom line" costs of each alternative fuel, and how much would these variables (or the costs associated with them) have to change to alter the overall comparison of alternatives?

IV. Risk analysis

This component is related to sensitivity analysis, and measures the likelihood that the predicted cost levels assigned to each key variable are correct. The question here is: how uncertain are the cost estimates?