

MINUTES OF THE MEETING
NATURAL RESOURCES COMMITTEE
49TH LEGISLATURE SPECIAL SESSION III

June 23, 1986

The meeting of the Natural Resources Committee was called to order by Chairman Dennis Iverson on June 23, 1986, at 11:00 a.m. in Room 312-1 of the State Capitol.

ROLL CALL: All members were present with the exception of Rep. Krueger and Rep. Janet Moore, who were excused.

CONSIDERATION OF HOUSE BILL NO. 39: Rep. Ray Peck, District 15, sponsor of the bill, presented it to the committee at the request of the Department of Natural Resources and Conservation. He said the primary reason he signed the bill is because it would be part of the package to balance the state's budget. It will transfer \$1 million from the Alternative Energy earmarked account to the general fund, it suspends the grant and loan portion for three years, it insures that retrofits must be administered according to the state's construction laws, and it increases the flexibility for the department to match federal and state funds, which he thinks is important.

PROPOSERS: Louise Moore, representing the Department of Natural Resources and Conservation (DNRC), submitted written testimony (EXHIBIT 1), which she read to the committee. She urged the committee to pass this bill.

There were no further proponents.

OPPONENTS: Rep. Dave Brown, District 72, presented five amendments for the committee's consideration. These are attached as EXHIBIT 2. He said he is opposed to the manner in which this bill has come to the legislature. He walked through the five amendments and stated amendment #5 is the most controversial. He asked the committee to support this amendment, and that with the amendment, he could support the bill.

Russ Brown, representing the Northern Plains Resource Council, presented written testimony (EXHIBIT 3) in opposition to the bill.

Bill Black, president of Renewable Technology, Inc., spoke in opposition to the bill. RTI has conducted research in bio-technology for the past four years, and they have accomplished a couple of things. The company exists because the money was there. They have developed a new technology, and they now have two products, and two more in the early stages of basic research. The DNRC had put in almost \$500,000 which was matched by federal funds. Another Phase I grant can result in another \$500,000. They have also received notification from the U. S. Department of Agriculture that they have a Phase I for gypsy

moth control. Because of the DNRC grant program, RTI will go over \$1 million in their research program this year. They have 16 people on their staff and they would like to look at where they will be two or three years from now.

Candace Durran, representing the Alternative Energy Resources Organization, submitted written testimony (EXHIBIT 4), expressing their opposition to the bill. She urged this committee to reconsider returning all these funds to the general fund because of the potential for their investment in energy conservation.

George Ochenski, representing the Montana Environmental Information Center, stated they are firmly opposed to the bill. However, if the committee would choose to adopt the amendments, they would change their minds. There is an electric surplus in the Northwest now because people did not estimate the amount of electricity created through conservation. The less that is spent on energy, the more that can be spent on travel, services and goods. He suggested that everyone continue to follow the conservation program and continue to insulate buildings. If the DNRC voluntarily decides to give up its conservation program, they should consider changing their name by dropping the "conservation" in the name.

John Krigger, a private energy consultant, presented written testimony (EXHIBIT 5) stating he was appearing as neither a proponent nor an opponent. He went over his handout and said the point he is trying to make is that it will be more expensive for the state not to pursue the energy conservation program than it would be to pursue it. He felt the state should pursue a progressive program of \$750,000 to \$1 million.

Earl J. Reilly, Montana Senior Citizens Association, said he is opposing the bill in its present form. He agreed with Russ Brown's statement that this is a quick fix of a temporary crisis. By transferring the funds, it will not solve the problems.

There were no further proponents or opponents present.

DISCUSSION OF HOUSE BILL NO. 39: Rep. Miles asked Rep. Dave Brown if the committee decides to not take the \$1 million out right now, will the \$143,000 be taken out in the 1987 biennium. Rep. Brown replied that if the bill is left as it is, the \$143,000 will be lost in the next biennium.

Rep. Miles said she was wondering about the timing, why the one-year freeze. Larry Fasbender, director, DNRC, said it would have to be before June 30, 1987.

Rep. Miles asked Rep. Brown that since he is deleting all of the existing section 3 on page 4, lines 8 - 15, does he intend to strike existing requirements to replace funds. Rep. Brown said that is the language of the Department of Natural Resources and Conservation, and the Department of Administration. It takes that additional language because of the transfer of administering the renewable energy sources program.

Rep. Addy asked if there was \$1 million in the fund now. Van Jamison of the DNRC replied they are making assumptions and reversions. There is about \$1.8 million in the fund prior to the transfer of the \$1.143 million. That includes the department's projected expenditure over the course of the next fiscal year, but does not include any grants.

Rep. O'Hara asked the Department of Natural Resources to respond to each amendment. Mr. Jamison said he agrees with the benefits of the program that have been made. They feel they have accomplished a lot in the program. Mr. Jamison said they have several programs. The federal and state programs were developed totally apart from each other. The situation is if they adopt amendment #1, the legislature could identify the money to go to buildings. He said the DNRC is asking for the flexibility to fill the gaps between the programs, and they are proposing to make biennial reports to the legislature. They will not support amendment #1 because it doesn't promise enough flexibility. He said they could live with amendment #2, but they would argue against it as there are trade-offs. They have a very limited pot of money, and they are not going to be able to make many loans. They have reduced their proposed expenditures in the next biennium. In reference to amendment #3, there are misunderstandings of what they are trying to do. The DNRC continues to monitor the energy savings programs and fulfills the program. They would argue against amendment #3. The department has no problem with amendment #4 in putting together an energy plan. They have worked with the Environmental Quality Council and shared their thoughts in what direction they should take. They have no problem with the new language that the department has the ability only through 1987. From their perspective, they don't anticipate the revenue will be substantial enough for fiscal years 1987 - 1989. On amendment #5, he said they should look at why these funds are available. Every fiscal year, they have new appropriations to spend the money appropriated by the legislature. They have had \$2 million, and now they have \$1.143 million to transfer. They are asking that the legislature take the money they did not need in the last few years and use it for the problems that need to be addressed. Last year, the department spent as much money as was put into the account. Now they are asking for the authority to spend all the money that under normal conditions would be coming into the program.

Rep. Asay asked Mr. Jamison what kind of returns they can claim legitimately. Mr. Jamison said they have made four retrofitting grants. On one, the available savings is \$23,915 per year with \$74,432 committed, the Department of Highways provides \$94,995, and \$21,095 is matched by the highways for a savings of \$16,540 per year for seven years.

Rep. Asay asked what the effect would be on other federal money if this bill is passed. Mr. Jamison said the effect would be that the department would have the flexibility to bring together three programs.

Rep. Asay then asked if the department would be able to qualify for new grants, to which Mr. Jamison replied yes.

Rep. O'Hara asked Mr. Jamison if we can still take this money and not jeopardize what we have going so far. Mr. Jamison replied yes.

Rep. Driscoll asked what the annual income from the coal tax would be to this account. He was told 2.25 percent. Mr. Jamison said the annual income of repayment is \$225,000 from the repayment of loans. He also said this account does not get any money from anywhere else.

Rep. Kadas asked Larry Fasbender of the DNRC if he felt this program is doing any good in the state, aside from the current fiscal situation. Mr. Fasbender replied he thinks it is an excellent program. The conservation aspect is the most important. They are putting the renewable part on hold.

Rep. Kadas asked what kind of conservation returns would outweigh putting this money into the general fund. Mr. Fasbender said there are two situations. The renewable loan program and the grant program will make economic returns to the state of Montana. RTI is one of the best programs they are funding now for a quick return to the state. They don't intend it to be any more than a quick fix and in two or three years, the economy of Montana will be better. Rep. Kadas commented that the economy of Montana will be better if the price of oil doesn't go above \$17 a barrel.

Rep. Asay said that we are looking at 21 percent return from the figures given, and he asked if the department is considering this as being strictly bandaid, or abandoning the program for two years. Mr. Fasbender replied on the short-term basis, they are going to have money available for other than long-term grants. It is going to turn around partially because of the coal contracts.

In closing, Rep. Peck said there is a budget crisis and this is a budget package bill. He said he is going to vote for the freeze, even though he does not want to vote that way. Rep. Peck addressed some of the comments made by those testifying and made reference to Rep. Brown's amendments. He said he has some problem with the legislative approval and the department will do as they see fit. He also said he can't buy into the idea of transfers, and questioned how jobs can be created by spending money you don't have. He agreed with Russ Brown's comment, that it is a budgetary crisis that requires a long-term solution. Long-term solutions can't be made unless the legislature wants to stay this whole summer. We are talking about a bandaid. He ended by saying this is a budget crisis bill and if we don't buy it, we are going to be pulling a brick from the wall.

DISPOSITION OF HOUSE BILL NO. 39: Rep. Addy moved to amend page 5, line 9 and strike "1989" and insert "1987". Rep. Asay seconded the motion. Question being called for, motion PASSED unanimously.

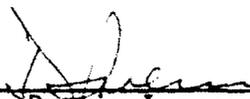
Rep. Asay made the motion the HB 39 DO PASS AS AMENDED.

Rep. Asay said what we are doing is terribly temporary. Rep. Miles asked if possible revenue from coal is decreased, would that fund be rebuilt. Rep. Asay said if the legislature doesn't take a positive step, we are driving jobs out of the state.

Rep. Driscoll moved to amend by accepting the remainder of Rep. Brown's Amendment Set No. 4, which provides for a plan of what they will do with the money they have. Question being called for, motion CARRIED, with Rep. Addy and Rep. Jones voting against it.

Question was called for on Rep. Asay's motion of DO PASS AS AMENDED. Motion CARRIED on a Roll Call Vote of 9 to 8.

There being no further business to come before this committee, the meeting was adjourned at 12:20 p.m.



Rep. Dennis Iverson, Chairman

49TH LEGISLATURE SPECIAL SESSION III

DAILY ROLL CALL

NATURAL RESOURCES COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date June 23, 1986

NAME	PRESENT	ABSENT	EXCUSED
Rep. Dennis Iverson, Chairman	✓		
Rep. Mike Kadas, Vice-Chairman	✓		
Rep. Kelly Addy	✓		
Rep. Tom Asay	✓		
Rep. John Cobb	✓		
Rep. Jerry Driscoll	✓		
Rep. Rod Garcia	✓		
Rep. Ed Grady	✓		
Rep. John Harp	✓		
Rep. Tom L. Jones	✓		
Rep. Kurt Krueger			✓
Rep. Joan Miles	✓		
Rep. Jan Moore			✓
Rep. Jesse O'Hara	✓		
Rep. Mary Lou Peterson	✓		
Rep. Bob Raney	✓		
Rep. Bob Ream	✓		
Rep. Clyde Smith	✓		

STANDING COMMITTEE REPORT

June 23, 1986

Mr. Speaker: We, the committee on NATURAL RESOURCESreport HOUSE BILL NO. 39

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

Rep. Dennis Iverson,

Chairman

REVISING STATE GOVERNMENTAL UNITS PORTION OF RENEWABLE ENERGY FUNDS.

BE AMENDED AS FOLLOWS:

1. Title.

Following: line 13

Insert: "REQUIRING SUBMISSION OF A RENEWABLE ENERGY AND CONSERVATION PLAN TO EACH GENERAL SESSION OF THE LEGISLATURE;"

2. Page 5, line 9.

Strike: "1989"

Insert: "1987"

3. Page 5, following line 12.

Insert: NEW SECTION. Section 5. Renewable energy and conservation plan. (1) The department shall develop a plan for renewable energy and conservation technologies and shall provide for continuing public review of the plan. The plan shall contain: (a) an evaluation to determine if additional investment of state funds in renewable energy and conservation technologies is warranted and where the investment would be most effective; (b) a plan for coordinating energy conservation programs in Montana;

(c) a summary of the accomplishments of the renewable energy grant and loan program;

(d) investment criteria, including but not limited to preferential consideration for technologies that have the greatest potential to reduce reliance on nonrenewable energy sources and that promote economic development; and

(e) other plan elements consistent with the program purpose provided in 90-4-101.

(2) The department shall submit to each general session of the legislature, the plan and any section thereof or amendments, additions, or revisions thereto. A plan must be submitted by January 1, 1987."

Renumber: subsection sections

4. Page 6, line 6.

Strike: "Section"

Insert: "Sections"

Strike: "is"

Insert: "and 5 are"

..... June 23, 19 86

5. Page 6, line 8.
Strike: "section"
Insert: "sections"
Following: "4"
Insert: "and 5"

49TH LEGISLATURE SPECIAL SESSION III

ROLL CALL VOTE

NATURAL RESOURCES

COMMITTEE

DATE June 23, 1986 BILL NO. 39 NUMBER _____

NAME	AYE	NAY
Rep. Iverson, Chairman	✓	
Rep. Kadas, Vice Chairman		✓
Rep. Addy	✓	
Rep. Asay	✓	
Rep. Cobb	✓	
Rep. Driscoll		✓
Rep. Garcia		✓
Rep. Grady		✓
Rep. Harp	✓	
Rep. Jones	✓	
Rep. Krueger		
Rep. Miles		✓
Rep. Moore		✓
Rep. O'Hara	✓	
Rep. Peterson	✓	
Rep. Raney		✓
Rep. Ream		✓
Rep. Smith	✓	

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Marianne Bagley
Secretary

Dennis Iverson
Chairman

MOTION: Rep. Asay made the motion of Do Pass
as Amended.

EXHIBIT
June 23, 1981
HB 39
Rep. Peck

TESTIMONY FOR HOUSE BILL 39

The Department requested this bill to help offset the general revenue shortfall confronting us. This bill would transfer \$1.143 million to the general fund, would improve the effectiveness of the state buildings energy retrofit portion of the program, and would suspend the grant and loan portion of the program for three years in response to reduced future program funding.

Specifically, this bill does five things:

First, it transfers \$1.143 million from the Alternate Energy and Energy Conservation Research, Development and Demonstration account to the general fund;

Second, it suspends the grant and loan portion of the program for a period of up to three years;

Third, it authorizes DNRC to continue to select buildings and award grants for energy retrofits of state buildings, rather than requiring DNRC to seek legislative approval of every building to be retrofitted;

Fourth, it requires a biennial report to the Legislature on the effectiveness of the grants that are awarded;

And finally, it requires that state building energy retrofit grants be administered according to the state's construction laws.

This bill makes a substantial contribution toward balancing the state's budget by transferring \$1 million from the Alternative Energy earmarked account to the general fund on June 30th of this year and an additional \$143,000 during the next fiscal year. The funds will be transferred in two payments to ensure that an adequate cash flow can be maintained in the account.

With reduced severance tax revenues, there is not sufficient revenue to continue all parts of the program and transfer funds to the general fund. The current law requires the Department to give grants for energy retrofits of state buildings as well as grants and loans for renewable energy and energy conservation projects. Section 4 on page 4 of this bill gives the Department the ability to defer awarding grants and loans for alternative energy projects for the next three years, but does not preclude the Department from making an award for an exceptional project.

While there is a need to continue to research, develop, demonstrate and commercialize renewable energy and energy conservation technologies and to have these technologies available when energy costs increase, there is a more immediate need to reduce operating costs of state government by retrofitting state buildings. This provides not only immediate savings to the state budget, but also long-term savings.

Grants were made for state building retrofits for the first time this year. The program is a good one, however, these two changes are proposed to improve the effectiveness of the program. The first change would enable us to

continue to leverage federal funds for grants and the second would provide more accurate information for the legislature to make decisions regarding the impact of grants on agency budgets.

When the program was initiated the Department was to select buildings to be retrofitted for two years and then beginning in 1987 the Legislature would select the buildings.

Requiring the legislature to approve every building to receive an energy retrofit limits the ability of the Department and participating agencies to incorporate energy retrofits with ongoing building maintenance and renovation in a timely and cost effective manner. It also limits the opportunity to leverage federal energy conservation funds that stretch state dollars. Some state buildings, primarily in the university system and state hospitals, are eligible for these federal funds that are awarded on an annual basis according to strict criteria and time schedules. Three of the four buildings that we funded in FY 86 also received federal funds, so that nearly \$100,000 of federal funds were combined with state funds.

Several state agencies told us that one provision of the current law would discourage them from participating in the energy retrofits. That is the provision that their agency budgets would be reduced based on the estimated savings in energy costs. The agencies would have no assurances that the estimated savings would actually be realized. Most buildings do not have individual meters or historic consumption records, which makes it difficult to compare energy usage. Also savings are difficult to predict with any certainty because energy use is influenced by such things as occupant behavior, weather, maintenance and other factors that are difficult to predict.

Section 2 deletes the provision for legislative approval of every building to be given a grant for energy conservation. This section also eliminates the requirement that agency budgets be reduced based on predicted savings. In section 3 the bill requires the Department to report to the legislature on a biennial basis information on individual grant projects and the effectiveness of those projects. This information will be more reliable than predicted energy savings, and the legislature could use this information to reduce energy budgets.

We feel that these changes will accomplish the purpose the legislature intended, will provide an incentive for agency participation and will allow the opportunity to leverage federal funds and to schedule retrofits in conjunction with work planned as regular building maintenance or as part of the long-range building program.

This bill also provides rule-making authority for the Department to implement this bill in section 1 and requires section 3 that grants in state governmental units will be administered in accordance with the state construction laws through the Department of Administration.

This bill will provide over \$1 million in additional revenues to the general fund and will improve the effectiveness of the Alternate Energy Program.

I urge you to pass this bill.

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Proposed Amendments to House Bill No. 39
House Natural Resources Committee
Submitted by Rep. Dave Brown
June 23, 1987

Amendment Set No. 1:

Page 2, line 21
Strike: "The"
Insert: "Prior to July 1, 1987, the"

Page 3, following line 25
Insert: "(2) (a) After June 30, 1987, the department may award grants from the alternative energy and energy conservation development and demonstration account to such state governmental units that have had projects approved by the legislature.

(b) (i) State governmental units shall apply to the department for grants.

(ii) The department shall prescribe the form for applications and develop criteria for prioritizing grants.

(iii) The department shall prioritize grant applications submitted to it and shall submit its recommendations on the granting of awards to state governmental units with its budget request as provided in 17-7-111. The recommendations shall include the names of proposed projects, their cost, and the expected annual energy savings, if any, resulting from the grant."

* Re-number: subsequent subsection

Comments: These amendments reinstate the legislative approval requirement for grants awarded to state governmental units after June 30, 1987. The 1985 Legislature intended to provide the Department with approval authority only for the 1985-87 biennium; the process for subsequent bienniums is similar to the water development and Resource Indemnity Trust programs.

* The renumber instruction is not applicable if amendment set no. 3 is adopted.

Proposed Amendments to House Bill No. 39
House Natural Resources Committee
Submitted by Rep. Dave Brown
June 23, 1987

Amendment Set No. 2:

Page 2, line 21

Following: "grants"

Insert: "for up to 50% of the funds"

Page 4, following line 4

Insert: "Each agency awarded a grant shall repay the grant to the alternative energy and energy conservation development and demonstration account. Money from these repayments must be allocated equally for state governmental unit grants under this section and grants and loans awarded under 90-4-106."

Page 5, line 8

Following: "project"

Insert: "consistent with grants awarded to state governmental units under 90-4-109. In addition, at least one-half of any reallocated money must be appropriated for grants or loans under 90-4-104 and 90-4-106."

Comments: These amendments are designed to ensure that at least one-half of the renewable energy sources program funds is used for grants or loans to person who desire to research, develop, or demonstrate energy conservation or alternative renewable energy sources. Otherwise, the Department could award all of the available money to state governmental unit grant applicants.

Proposed Amendments to House Bill No. 39
House Natural Resources Committee
Submitted by Rep. Dave Brown
June 23, 1987

Amendment Set No. 3:

Page 4, lines 5 through 7
Strike: subsection (2) in its entirety

Page 4, lines 8 through 15
Strike: section 3 in its entirety
Renumber: subsequent sections

Comments: These amendments leave program supervision for the state governmental unit grant program with the Department of Natural Resources and Conservation, which is where the 1985 Legislature intended to place the authority. The DNRC, by virtue of its mandate to administer the renewable energy sources program, should retain authority over all aspects of the program.

Proposed Amendments to House Bill No. 39
House Natural Resources Committee
Submitted by Rep. Dave Brown
June 23, 1987

Amendment Set No. 4:

Page 5, line 9
Strike: "1989"
Insert: "1987"

Page 5, following line 12

Insert: "NEW SECTION. Section 4. Renewable energy and conservation plan. (1) The department shall develop a plan for renewable energy and conservation technologies and shall provide for continuing public review of the plan. The plan shall contain: (a) an evaluation to determine if additional investment of state funds in renewable energy and conservation technologies is warranted and where the investment would be most effective;

(b) a plan for coordinating energy conservation programs in Montana;

(c) a summary of the accomplishments of the renewable energy grant and loan program;

(d) investment criteria, including but not limited to preferential consideration for technologies that have the greatest potential to reduce reliance on nonrenewable energy sources and that promote economic development; and

(e) other plan elements consistent with the program purpose provided in 90-4-101.

(2) The department shall submit to each general session of the legislature, the plan and any section thereof or amendments, additions, or revisions thereto. A plan must be submitted by January 1, 1987."

Re-number: subsection sections

Comments: The first amendment limits to one year the Department's discretion to not allocate program funds or accept applications for grant awards. The second amendment directs the Department to prepare a plan analyzing how it can use these funds in an optimum manner. Both amendments are designed to ensure that the Department administers an effective renewable energy sources program in the future.

Proposed Amendments to House Bill No. 39
House Natural Resources Committee
Submitted by Rep. Dave Brown
June 23, 1987

Amendment Set No. 5:

Page 5, lines 13 through 18
Strike: subsection (1) in its entirety

Page 5, line 19
Strike: "(2)"

Comments: This amendment provides for a \$143,000 contribution to the general fund from the renewable energy sources account. This amount is is much greater than the 5% cut recommended by the Governor. The long-term benefits of the renewable energy sources program for Montana far exceed the advantages of a major budget cut to meet short-term general government needs.

BASED ON THE PROPOSED PLAN FOR RENEWABLE ENERGY AND CONSERVATION TECHNOLOGIES THAT WOULD CONTAIN AN EVALUATION TO DETERMINE IF ADDITIONAL INVESTMENT OF STATE FUNDS IN RENEWABLE ENERGY AND CONSERVATION IS WARRANTED AND WHERE THE INVESTMENT WOULD BE MOST COST EFFECTIVE, AND THAT WOULD ALSO INCLUDE, BUT NOT BE LIMITED TO CRITERIA FOR FUNDING THOSE TECHNOLOGIES THAT HAVE THE GREATEST POTENTIAL TO REDUCE RELIANCE ON NONRENEWABLE ENERGY SOURCES AND THAT PROMOTE ECONOMIC DEVELOPMENT. For example

MEMBERS OF THE COMMITTEE, THIS MONEY, IF INVESTED IN ENERGY CONSERVATION OR RETROFITTING OF STATE BUILDINGS WOULD MAKE THE STATE MONEY IN THE LONG RUN. ENERGY CONSERVATION MAKES STATE SERVICES SAFER FROM INTERRUPTIONS OF POWER CURTAILMENTS AND VARIATIONS OF PRICE. MANY STATE BUILDINGS ARE EXTREMELY WASTEFUL DUE TO LACK OF MAINTENANCE MAKING THEM EXCELLENT CANDIDATES FOR COST EFFECTIVE CONSERVATION. FURTHER THE RETROFITTING OF STATE BUILDINGS WOULD NOT ONLY SAVE THE STATE MONEY IN THE LONG RUN, IT WOULD PROVIDE ECONOMIC OPPORTUNITIES (JOBS) IN THE SHORT TERM.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, YOU HAVE AN OPPORTUNITY TO DEMONSTRATE FORSIGHT AND LEADERSHIP BY DIRECTING DNRC TO AGGRESSIVELY PURSUE AND ENERGY CONSERVATION PROGRAM ACCOUNTABLE TO THE LEGISLATURE THAT RECOGNIZES THE NECESSITY FOR LONG TERM REVENUE ENHANCEMENT OPPORTUNITIES AS OPPOSED TO SHORT TERM, TEMPORARY SOLUTIONS. WE URGE THAT YOU OPPOSE THE REALLOCATION OF A MILLION DOLLARS FROM THE ALTERNATIVE ENERGY AND CONSERVATION ACCOUNT TO THE GENERAL FUND, AND DIRECT DNRC TO COME FORTH WITH A COST EFFECTIVE, REVENUE ENHANCING, LONG TERM ENERGY PLAN

MR. CHAIRMAN, WE AGAIN APPRECIATE THE OPPORTUNITY TO COME BEFORE THE HOUSE NATURAL RESOURCES COMMITTEE. THANK YOU FOR YOUR TIME AND CONSIDERATION.

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Rep. Peck



Alternative Energy Resources Organization

324 Fuller — Room C-4, Helena, Montana 59601

406-443-7272

Testimony before .

June 18, 1986

AERO is a membership-based organization that for the last twelve years has promoted the development of renewable energy and conservation efforts here in Montana. We question the wisdom of returning all \$1.143 million to the general fund and suggest instead that these dollars be committed to state-owned buildings retrofits

The state board of investments considers a 10.5% rate of annual return on investment very good. If we look at the payback rate and rate of annual return in retrofitting commercial and public buildings, then the dollars and sense of such an allocation add up quickly.

I'd like to cite a few examples of building retrofits elsewhere in the country. ~~More are provided in the written testimony I'll be submitting.~~

Each of these retrofits represents an opportunity that the State of Montana has in at least a few state buildings.

1. Union Camp Corporation - Washington, Pa.
16% reduction in gas costs reaped by installing oxyten trim control on large boiler. 6.8 month payback; 176% annual return
2. New Jersey State Senate

Replaced 75 watt incandescent with 18 watt compact screw-in flourescents. The flourescents have a 2 year service life versus 10.5 months for the incandescents. 1 year payback; 100 annual return
3. Rosemount School District - Minnesota
Saved \$320,000 in 17 months after installing an energy management system at a cost of \$25,000 yeilding a payback of 1 year, 4 months; annual return over 75% per annum
4. Holiday Foods, Warehouse Markets Inc. - Western USA
Replacing refrigeration compressors with new more efficient smaller compressors that come on in sequence according to load; and adding subcoolers to the refrigeration system have reduced electric costs for cooling by as much as 35%. 3 month to 2½ year payback
5. Black Angus, Host International - USA
Heat recovery from cooking and refrigeration. 2 years payback; 50% annual return
6. City of Banning CA
Replaced mercury vapor street lights with high pressure sodium saving \$62,000 per year with an initial investment of \$176,000. 4 year payback; 24% annual return

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7. Western Electric - Redding, Pa.
Realized a 12 day pay back using stickers to remind employees to turn off machines and lights when not in use. Saved over \$200,000 in the first year.
8. New York Telephone
Realized a 1 year pay back by installing ultrasonic personnel sensors to control lighting.
9. Lewis and Clark Bowling Center, WA
Replaced flourescent lighting with high pressure sodium and metal halide lights yeilding a 2 year pay back wihle increasing light levels.
10. Marriot Hotel - Syracuse, NY

Cut gas and electric costs by 10% saving \$85,000 a year with \$500 worth of hardware, policy changes and O&M.
11. Alexian Brothers Medical Center - Elk Grove Village, IL
Replaced steam traps costing \$40,000 and saving \$60,000 the first year. 8 month pay back; 150% annual return

This is metered data - hard figures collected by the people who pay the energy bills of these buildings.

Again, we urge this committee reconsider returning all these funds to the general fund because of the potential for their investment in energy conservation (and in Montana) to pay handsome returns to the state.

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1: **PREPARED BY JOHN KRIGGER FOR THE MONTANA LEGISLATURE**
2: **CONSIDERATIONS IN FAVOR OF INVESTMENT IN CONSERVATION**

Opportunity

Many state owned buildings are extremely wasteful due to lack of maintenance making them excellent candidates for cost effective conservation. Investments in conservation can provide 10% to 25% annual returns for a multimillion dollar investment in state owned buildings.

Avoidance

At least 40% of the most cost effective energy conservation measures should not be avoided. The maintenance value in preserving Montana's state owned buildings is reason enough to accomplish them.

Risk

Metered data from similar or identical energy conservation retrofits is at least as safe a prediction as the historical performance of stocks and bonds and the yearly financial reports of corporations.

Quality

An indication of the quality of energy conservation investments is the involvement of Investment Banks who work through Energy Service Companies to finance conservation to private and public buildings at an acceptable profit.

Security

Energy conservation makes state services safer from interruptions of power, curtailments, and variations in price.

3: **RECOMMENDATIONS FOR IMPLEMENTATION**

- Pursue program at million dollar per year level**
- Convene multidisciplinary group to supervise the program**
- Extent of work**

Accomplish all the ECMs that will payback in 7 years or less for each facility. This policy will keep administrative costs as a percentage of investment to a minimum.

Repayment

The decision whether to require repayment brings up the difficult questions of logistics, complicated recordkeeping, and transfer of funds that could severely affect the incentive state agencies have to use the program. A loan program would need strong executive support and a streamlined recordkeeping and repayment methodology to succeed

General revenue enhancement

The alternative to repayment is to let the agencies who use the program keep the savings. This choice would greatly simplify administration, recordkeeping and transfer of funds. The legislature could freeze energy budgets to remove the current negative incentive to conserve energy that exists in state government. This negative incentive to conserve can best be illustrated by the following question asked by an administrator, "Why should I make work for myself administering measures which take money from my already lean maintenance budget to reduce my energy budget when the savings are just returned to the General Fund?"

Selection criteria

Financial need of agency
Matching funds
Existing efforts to conserve energy
Energy history
Planning and documentation

4: ASSUMPTIONS FOR ANALYSIS ON PAGE 3

Time period considered in the analysis is 20 years
Energy prices will remain stable during that period.
Retrofits will repay initial investment within 7 years.
An abundance of 7 year payback energy retrofits exists for investment
Energy retrofits will last for 20 years
Buildings serviced under the program will last for 20 more years
No addition maintenance costs attributable to the retrofits
Energy savings remain constant over 20 years

NOTE:

If any of these assumptions are too conservative, then conservation is a better investment than indicated in the calculations and if any are too liberal then the reverse is true.

5: METHODOLOGY FOR ANALYSIS ON PAGE 3

Explanation of Page 3

Page 3 of this testimony analyzes two different levels of investment in energy conservation. The LOWER level of investment assumes an investment of \$750,000 per year for 10 years and the HIGHER level assumes \$1,000,000 per year for 10 years. I would expect these two examples to reduce the overall state energy budget 8 - 12% over the next 10 years unless energy costs increase in which case conservation becomes a better investment even though the state energy budget may stay the same.

The LOWER example is shown in columns 2 & 3 and the HIGHER example is shown in columns 4 & 5. Earnings are calculated by multiplying .143 times the investment and adding each successive years investment earnings to the total.

Net Present Value

Net present value brings a string of investments (columns 2 & 4) or earnings (columns 3 & 5) in the future back into present dollars. The present value calculations on the next page are meant to compare energy conservation investments at 14.3% (7 year payback) with Board of Investments conventional investments at 10.5%. 10.5% is used as the discount rate in the calculations contrasting the present value of investments in energy conservation with earnings from energy cost savings (row 25). Row 26 (%DIFF) notes the difference between the present value of the investments and the present value of the earnings from energy cost savings in the next 20 years.

MONTANA STATE BUILDINGS ENERGY CONSERVATION PROGRAM

	1	2	3	4	5
1	YEAR	INVESTMENT	EARNINGS	INVESTMENT	EARNINGS
2		LOWER		HIGHER	
3					
4	y1987	\$ 750,000	\$ 107,250	\$1,000,000	\$ 143,000
5	y1988	750,000	214,500	1,000,000	286,000
6	y1989	750,000	321,750	1,000,000	429,000
7	y1990	750,000	429,000	1,000,000	572,000
8	y1991	750,000	536,250	1,000,000	715,000
9	y1992	750,000	643,500	1,000,000	858,000
10	y1993	750,000	750,750	1,000,000	1,001,000
11	y1994	750,000	858,000	1,000,000	1,144,000
12	y1995	750,000	965,250	1,000,000	1,287,000
13	y1996	750,000	1,072,500	1,000,000	1,430,000
14	y1997		1,072,500		1,430,000
15	y1998		1,072,500		1,430,000
16	y1999		1,072,500		1,430,000
17	y2000		1,072,500		1,430,000
18	y2001		1,072,500		1,430,000
19	y2002		1,072,500		1,430,000
20	y2003		1,072,500		1,430,000
21	y2004		1,072,500		1,430,000
22	y2005		1,072,500		1,430,000
23	y2006		1,072,500		1,430,000
24					
25	NPV	\$4,511,080	\$5,402,109	\$6,014,773	\$7,202,812
26	% DIFF		19.75%		19.75%

VISITORS' REGISTER

NATURAL RESOURCES

COMMITTEE

BILL NO. HB 39

DATE June 23, 1986

SPONSOR Rep. Peck

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GANDACE DURRAN	AERO		
Jay Jamison	DNRC	X	
Louise M. Mooi	DNRC	X	
DAVE BROWN	State Rep - Butte Silver Bur.		X X
Larry Fashander	DNRC	X	
Bob Thompson	EOC		X
GEORGE OCHOWSKI	MT. ENV. INF. CNTR		X

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