

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON NATURAL RESOURCES

Call to Order: By CHAIRMAN BERV KIMBERLEY, on January 29, 1991,
at 8:00 A.M.

ROLL CALL

Members Present:

Rep. Berv Kimberley, Chair (D)
Sen. Esther Bengtson, Vice Chair (D)
Sen. Gerry Devlin (R)
Rep. Ed Grady (R)
Rep. Jerry Nisbet (D)
Sen. Cecil Weeding (D)

Members Excused:

Members Absent:

Staff Present: Terri Perrigo, Associate Fiscal Analyst (LFA)
Carl Schweitzer, Budget Analyst (OBPP)
Theda Rossberg, Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Announcements/Discussion:

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

HEARING ON DIVISION OF ENERGY

EXHIBIT 1, Pages C-44 - C-46 - Van Jamison, Administrator Energy
Division introduced Ann Danzer, Assistant Administrator.

EXHIBIT 2 - Mr. Jamison reviewed this division with the
committee. This division is composed of three bureaus: Facility
Siting Bureau, Planning & Analysis Bureau and Conservation &
Renewable Bureau. There is also an Administrative section which
provides management and fiscal oversight for the entire division.

Oil overcharge money is distributed to the States from the U.S.
Treasury. They are the result of the U.S. Department of Energy's
recoveries of overcharges of oil companies when oil & gas prices
were in effect between 1973 and 1981. The overcharge monies are
diminishing

SEN. BENGTON asked, what about the Windfall tax, will that come back to the State as an oil & gas overcharge? M. Jamison replied, the law that was violated, the oil & gas price controls, have been removed for a market oriented approach towards energy resource allocation. Where the windfall profit tax goes, will be up to Congress.

CHAIR. KIMBERLEY asked, how is the trust money handled? Is it put into a trust fund and redistributed with interest?

Mr. Jamison replied, the U. S. Department of Energy collects these monies and deposits it into the Treasury. They set aside 20% of the collections for direct reimbursement of large consumers such as trucking companies, etc. The remainder is split, 50% to the U.S. Treasury and 50% to the State including interest. We are required to use the interest for consumers in Montana, it cannot be used for a General Fund offset.

He stated, there are no FTE in the budget they are all included in Contracted Services. As the applications are filed, we move funding from Contracted Services to Personnel Services and hire people to complete the Environmental Assessment.

Facility Siting Bureau:

SEN. BENGTON asked, if this department prepared the EIS on the Bull Mountain project in Roundup. Mr. Jamison replied, the Department of State Lands is responsible for that project. They asked our department to do that, but we declined. Our staff does not work on EIS unless as a matter of priority we have to meet Statutory deadlines.

EXHIBIT 3 - Employee Turnover:

Mr. Jamison stated, we have lost 8 staff members with about 38 years of experience. Since I prepared this document, my Energy Policy Analyst, who handles our response to Iraq's invasion of Kuwait, who has been inter-acting with the petroleum industry in Montana on a regular basis has given notice he is leaving and going to Kansas City to become Regional Manager of a Pipeline Company.

I have an Economist who is currently interviewing with the State of Washington. Washington has actually targeted Montana for recruitment as we have some of the best trained people. They have hired about 6 of our staff already.

EXHIBIT 2 - Planning & Analysis Bureau:

Mr. Jamison gave extensive testimony on this Bureau. He stated, as a result of the Persian Gulf crisis, Admiral Watkins and the U.S. Department of Energy authorized a draw-down of 33 million barrels of oil from the Strategic Oil Reserve, which amounts to about 1.125 barrels per day. Through the International Energy Administration which coordinates strategic draw-downs worldwide, other member Nations are drawing-down their reserves. Worldwide, that amounts to about 2.5 million barrels a day.

CHAIR. KIMBERLEY asked, how long would that last? **Mr. Jamison** stated, the Strategic Oil Reserve holds about 560 million barrels of oil per day. Theoretically, that is about 3 million barrels draw-down per day. This would give you about 180 days at that rate. Some say the capacity is less than that and others say it is more.

SEN. WEEDING asked, how does Montana enter into this, do we own some of this Montana reserve. **Mr. Jamison** replied, the oil reserve is purchased with Federal tax dollars. When a draw-down occurs a bid is let and the U.S. Department of Energy provides the resource to the highest bidder. It is a market oriented approach and Montana producers could bid for that oil. Where there is more money, that is where the oil goes.

The Energy Emergency Supply Power Act deals with electrical shortages as well as oil. We have been meeting with other utilities in other States to develop consistent regional curtailment plans. Our surpluses we have enjoyed in the past have disappeared and we need a way to deal with this. The surpluses have been dwindling over the past several years.

The U.S. Department of Energy is about to release a Natural Energy Strategy document. The Department of Energy and Admiral Watkins have consulted with Montana frequently on different policy options. Montana was one of 8 States who that participated in writing the National Governor's Association's National Energy Policy Statement. We are seen as a leader in energy policy work and Admiral Watkins has invited me back twice to see what the National Energy Strategy should look like. It is my understanding that Admiral Watkins submitted this to OMB and I am anxious to find out what the final document will look like.

Not all of the energy decisions in Montana are made by the Department of Natural Resources. We are currently involved in some proceedings with the Public Service Commission which relates to "unbundling" of Montana Power's natural gas system.

"Unbundling" is a National issue and the National Governor's Association has recommended the utilities "unbundle" the gas services they provide and introduce competition into the gas industry and hopefully to bring the cost down. Currently the Great Falls Gas Company buys gas from the Montana Power Company. When they buy the gas they are buying the commodity and the transportation service and they provide the distribution services. What "unbundling" would do is allow the Great Falls Gas Company to competitively bid for the commodity and then the company would pay the Montana Power Company for the transportation service. Montana Power Company could sell its' reserves on the open market as well. This will introduce a competitive market which has been a monopoly business.

One of the most significant activities the bureau has worked on is a two year collaborate process with the Montana Power Company, along with low income groups, public interest groups and groups

who fought one another over rate-making matters. We got together to develop a document to advise the company as to how it could improve its' energy resource planning. This was a land-mark effort sighted by the utility industry and National Environmental groups as the first of its kind. We expect to receive an National Award for that effort. It was a consensual process which people with different views were finally able to arrive at a document set of principles which if implemented would be satisfactory to everyone. Basically, what they are recommending is a multi-attribute resource acquisition and planning type process. The Company is committed to it and is changing their internal behavior to accommodate the recommendations made by the group. I have a tentative commitment from the U.S. Department of Energy to underwrite the cost of Public Interest Groups participation in that collaborate process.

We are hoping there will be a legislative energy package in the 1993 session which could also involve the major facility sighting act

EXHIBIT 4 - Appropriations and Expenditures:

Mr. Jamison stated, this document shows General Fund appropriations and Expenditures within the Energy Division from FY83 to FY90.

SEN. DEVLIN asked, what percentage did you use for adjusted inflation? Mr. Jamison said, we used the Consumer Price Index which was done by one of our economists and he could get those figures for you.

EXHIBIT 1, Page 47 - Schools and Hospitals

Mr. Jamison reviewed this with the committee. The Energy Division gives grants to schools and hospitals on increase energy efficiency. These grants are matched dollar for dollar by the participating institution. Grants to schools showed a 28% reduction in natural gas consumption. These grants may be saving Montana Taxpayers as much as \$590,000 annually. Through this program the Great Falls School district is saving about \$400,000 per year.

The reduced energy costs of hospitals is used to keep patient cost down and increase services.

SEN. BENGTON asked, do you develop materials for energy? Have you heard anything about a product made out of straw in Havre?

Mr. Jamison replied, he didn't know anything about that product. He said, they used to provide funding for product development through the Alternative Energy Program. However, the funds disappeared and the only program we receive any funding for is the Bio-Mass and product development program which assists in the development of alternative fuels. There is a man in Missoula who has formed a company to develop new cogeneration building materials.

We are looking at developing a seed oil from the safflower plant which can be used in diesel fuel. Also, it may be used in inks, paints and other petroleum based products. This is a dryland crop and is grown only in Montana, North Dakota, South Dakota, Oklahoma and Texas. It provides good rotation with wheat and uses the same equipment for planting and harvesting. Dupont Chemical is very interested in this product.

SEN. WEEDING asked, how do you pick projects for the alternative energy program. Mr. Jamison replied, with regard to Ethanol our goal has been to pick the projects which will make Ethanol cost effective without subsidy. The things we need to be doing to achieve that objective are; squeezing more ethanol out of the feed stock, improving the value of by-products and look at no-cost feed stocks. Feed stock represents about 60% of the total cost of production. Waste products of feed stock are used for ethanol.

EXHIBIT 5 - The Energy Budget:

Terry Perrigo explained the budget differences between the LFA and the Executive. She said, Items B.1 and 2 are non-action items, but were shown here as they make up some of the budget differences.

Item D. 1 - were positions in the Conservation Bureau, a Conservation Specialist and a Word Processor Operator, which are Federally funded.

Ms. Perrigo reviewed the rest of the budget with the committee.

Mr. Schweitzer stated, in regard to Item E. Additional Issues for \$28,659, the budget office does not approve this item. Since we are fully funding the pay plan, this can be absorbed by the Department within their vacancy savings.

REP. BARDANOUVE asked, in regard to the Energy Conservation Modification, what funds are these?

Ms. Perrigo answered, that is 100% Federal Funds.

REP. BARDAVOUVE asked, what is being done with the Rock Creek money?

Mr. Jamison answered, the Rock Creek money is a public entity (DNRC) and available to mitigate damages to the wilderness area impacted by the 500 KV transmission line that was built by the Bonneville Power Administration. A Rock Creek Advisory Council was formed of which one member is from DNRC. During the last biennium, funds were used to purchase property for Big Horn Sheep in the Rock Creek drainage. The individual who owned the property wanted to leave the area to start farming and the Council agreed to purchase this property.

REP. BARDANOUVE asked, who has this property now.

Mr. Wetzel answered, the property is part of the state held in the Rock Creek Trust. The Rock Creek Advisory Council administers the land and we contract with the Forest Service to provide security.

SEN. BENGTON asked, how much did you pay for this land and how many acres?

Mr. Wetzel answered, I do not recall the exact amount but it is about 200 acres.

REP. GRADY asked, why is this money available, other than to purchase Big Horn Sheep habitat?

Mr. Jamison replied, the power plant did 1.65 million dollars of damage to the Rock Creek area, and the money is for mitigation of this damage. The Bonneville Power Company planned to run the transmission line through areas that were under the wilderness study. A number of public interest groups got together and brought suit against the Bonneville Power Company to prevent the Forest Service and the Power Company from building across these areas. The public interest groups agreed that if the 1.65 million dollars were paid they would drop their law suit. Therefore, BPA paid the money, which went into a trust account administered by DNRC.

REP. GRADY asked, are you spending the interest off this trust or is this on-going?

Mr. Jamison replied, this is on-going and the agreement says that the group can spend no more than 1/3rd of the Trust in any year, which is \$1.1 million.

REP. BARDANOUVE asked, how much is left in the Trust account.

Mr. Wetzel replied, the balance is about 1.6 million and the original amount was 1.65 million. With earned interest it was up to about 2 million at one time. We administer about 50,000 per year for environmental education. The Forest Service is putting in an interpretive trail which shows some geologic and hydrologic information for school children to visit. The Rock Creek Advisory Council receives the grant proposals to bring before the DNRC.

EXHIBIT 5 - Employee Turnover:

Mr. Wetzel reviewed Item D.1, vacancy of 2 FTE. These positions had been vacant for 6 months so the LFA eliminated them from the budget. One of these positions was a Work Processor Operator and there was no point in hiring this person if we didn't have any professional staff to pass the work on to the Processor. We hope to have Federal funding to pay for these two positions and more than enough work to justify these two positions which were included in the Executive Budget. I would appreciate the committee's approval for these 2 FTE.

Item D.2, Overtime - Many of the services we provide are technical assistance services which include workshops with different groups. We try to schedule these activities so as not conflict with business peoples' working hours. Therefore, our staff spends a lot of weekends and evenings working. If they work over 40 hours they have the option of taking comptime or overtime pay. To date, we have spent about \$700 in overtime which is all Federal funds.

Item D.3, \$145,000 for Montana Power/Western Area Power Administration Builder Training - This is for spending authority for Energy Conservation activities. The activities involve Commercial Efficiency work, residential customer work in the agriculture sector and some work in Energy Planning. In the 1987 session after our budget had been submitted and before the committee had taken final action I was informed by the Montana Power and Western Area Power Administration they were thinking of giving us some money. Language was put into the Bill allowing us to spend up to \$145,000 over the biennium. This money did not come in, either in 1987 or 1989. The Fiscal Analyst is proposing to build this into the base and look at actual expenditures in the past and treat this as a regular component of the Bureau's funding. This would be treated like all other appropriations as opposed to some kind of language.

Ms Perrigo clarified, the Montana Power funds of about \$62,500 are State Special Revenue and \$10,000 from Western Area Power is Federal funds. The budget sheet incorrectly identifies all the funds as federal.

REP. GRADY asked, if we don't use the Federal funds do we lose them?

Mr. Jamison answered, there are restrictions on how much you can carry-over. If we exceed the amount of carry-over allowed, this would go back into the fund and redistributed to all the other States. This is not the case with Montana Power or Western Area Power Administration monies.

SEN. DEVLIN asked, what was the language in '89.

Ms. Perrigo said, the language stated, "authorizes the Department of Natural Resources and Conservation to spend up to \$145,000. There is appropriated \$125,000 state special revenue contingent upon the Department receiving a grant from Montana Power for the purposes of conducting builder training and agricultural workshops. There is appropriated \$20,000 federal special revenue contingent upon the Department receiving a grant from Western Area Power Administration for conducting builder training and agricultural workshops."

SEN. DEVLIN asked, is this more stable funding then it was in 1989?

Mr. Jamison said, in 1987 when it first proposed to us, it was a one-time program. Now, this will be a regular component of work we do. There are no FTE involved with this program as we contract for help. This is on-going funding.

REP. GRADY asked, is the federal portion as solid as the other?

Mr. Jamison replied, the Federal portion is beginning to increase after years of neglect. Congress increased funding at the national level from 200 million to 250 million for these programs. We are waiting for the appropriation to see if it will be at that higher level. The federal component is going to get larger throughout time. If the federal share went to zero, we would stop providing those services as general fund would not be used as a replacement.

SEN. WEEDING asked, why other agencies beside Montana Power aren't contributing? How about MDU and co-ops, couldn't you get them to pitch in?

Mr. Jamison said, the co-ops in Western Montana are contributing to the builder program through the Bonneville Power Company. Montana Power is in a different situation and they are going to have to look into other resources because of the demands.

SEN. WEEDING asked, will there be some resistance from the co-ops because they are not facing this shortage?

Mr. Jamison replied, they are in that situation and it is possible.

Item D.4, \$30,000 for Lake Broadview Mitigation - This program was to enhance water fowl habitat at Lake Broadview and mitigate the damage caused by the Bonneville Power Administration's 500 KV power line which crosses the area. The Department has acquired some property at Big Lake which is near Molt, Montana. We contracted with FWP to manage the area. Therefore, we need contract authority to spend funds to complete the project. During the current biennium all the funds available were not spent.

SEN. DEVLIN asked, if you spend all of these funds are we through with this program. Mr. Jamison answered "yes".

Item D.5, \$71,467 more for Conservation Bureau's operating expenses - This represents the difference between the LFA and the Executive base. Since we have had such a problem with retention, our actual operating expenses are less than they would be if we were fully staffed. This \$71,467 is necessary to support a full staff.

Item D.6, \$523,810 for State Building Energy Conservation Bond - We are asking for spending authority in separate legislation and should not be included in Current Level.

Language Issues, Rock Creek Mitigation & Lake Broadview - Mr. Jamison said, these items had been discussed previously.

Modification Budget Request for the Energy Division - This modification deals with the increased appropriations by Congress as discussed earlier. Especially in the Libby area, we are trying to come up with alternatives for home heat especially in the Libby area, to deal with their quality problems. We are working with the city of Libby and the Department of Health to contract for someone to assist them. We have been asked to work with some of the mining operations for more energy efficiency. We are working with the State of Nevada to put on a conference to hire mine managers to look for energy efficiency to improve their operations. We are expanding our activities working with by-products for ethanol. Also, we are expanding our program to include recycling with bins in the Helena capitol complex and would like to include outside in Helena also. This includes oil recycling as well.

There are no salaries involved for this program as we will use contracted services or Grants.

Ms. Perrigo stated, the Division uses a mix of General Funds, State Special Revenues and Federal Funds. There is a difference of LFA and Executive funding in all those areas. Most of the issues will be resolved based upon the action the committee takes. We feel we could come up with suggested language you could use.

EXECUTIVE ACTION ON ENERGY PLANNING DIVISION

EXHIBIT 6 - Budget

Motion/Vote: SEN. BENGTON moved to accept the LFA Current Level Budget. Motion CARRIED unanimously.

Motion/Vote: SEN. BENGTON moved to accept the Executive Budget for Program Issues 1,2,3,4 & 5. Motion CARRIED unanimously.

Motion/Vote: SEN. BENGTON moved to accept the Executive Budget on Item D. Language Issues - 1.A & B, Rock Creek Mitigation and 2. Lake Broadview. Motion CARRIED unanimously.

Motion/Vote: REP. NISBET moved to accept the Executive Budget Modification requesting funds to implement Federal Energy Efficiency Programs. Motion CARRIED unanimously.

HEARING ON RESERVE WATER RIGHTS COMPACT COMMISSION

Susan Cottingham, Program Manager Reserve Water Rights Compact Commission gave an overview of this Division. EXHIBIT 7 & 8.

Ms. Cottingham stated, they are currently involved in negotiations with the Northern Cheyenne Tribe. Senator Mazurek

is the Chairman of that negotiation committee along with 3 other members of the Commission.

EXHIBIT 9 - Staff Report of the Northern Cheyenne Indian Water Resources Negotiations. **Ms. Cottingham** reviewed this report with the committee.

In the last legislative session we asked for an increase in staff to continue the work on the Milk River Basin and also put additional staff on the Northern Cheyenne technical work. The legislature approved that request and in FY90 they authorized 11 FTE and 13 FTE for FY91. The funding is approximately 40% General Fund and 60% from Reclamation and Development.

SEN. MAZUREK stated, I participated in negotiations with the Fort Peck Indian Reservation which was fairly easy because there is a lot of water there. However, with the Northern Cheyenne Reservation it is a different story. There is no water in Rosebud Creek, and the Tongue River Dam is a big issue. I currently have a bill in to ratify the Compact and hope to have our negotiation session by Friday, February 8th. This is the best alternative; the issues will not be resolved in litigation and will be more expensive. I feel the work of this Commission is very important and probably wouldn't be resolved any better in the Courts which would be more expensive. This is a legally complicated process but the best process; and I hope the committee will continue to support this process and not adopt the LFA recommendation to cut staff and eliminate funds for the computer system and contracted services.

SEN. BENGTON said, there is some frustration as whether negotiations should be in the Attorney General's office or the Water Courts. I was wondering if some of things you are doing are absolutely necessary in the negotiations process? I have asked Judge Loble to look at the process and see if there is a way this can be done with more efficiency.

SEN. MAZUREK stated, there has been a better working relationship with DNRC in the last couple of years tying together information with the computer system, and this has been very helpful.

SEN. BENGTON stated, in looking at the negotiation teams; these people have full-time jobs. How much time do you have to give to negotiations? Perhaps we would be better served to have a full-time negotiation team. What is the total appropriation you are asking for out of the general fund?

Ms. Cottingham replied, for the first year of the biennium the appropriation is \$447,000 and \$446,000 the second year. Approximately 40% of that comes out of General Fund. I wish I had kept track of the may hours the negotiation team spent with the Northern Cheyenne even though they are very busy people. When we were trying to make a counter-proposal we meeting weekly and bi-weekly for hours. This fall we have been spending from

one to three days with the tribe. We do have some lay people on the Commission who work directly with the tribal members.

SEN. BENGTON stated, I feel there is nothing better than citizens working with citizen groups. I am concerned how these attorneys have time to leave their law practices.

SEN. DEVLIN said, in regard to the Tongue River Dam whether or not you are negotiating with Indians, it is still have to be fixed. Do you feel you have had the participation with the non-Indian water users in the valley as you did up there.

SEN. MAZUREK answered, we did better. About 80% of our negotiations have been attended by someone from the Rosebud or the Tongue River drainage. We have had a larger turn-out of the people in this area then we had at Fort Peck. However, Fort Peck didn't have the water shortage as in the Rosebud area.

SEN. DEVLIN asked, where is the next step of negotiations taking place.

SEN. MAZUREK said, since we have been focused on the Northern Cheyenne, the rest of the Commission is a combined team dealing with the three Milk River Tribes, Rocky Boy, Fort Belknap and the Blackfeet. The Blackfeet have designated negotiation teams in the past and there is some indication they may do that again. The three Tribes have banded together on the Milk River issue. We are expecting to get a Compact proposal from the Rocky Boy Tribe shortly.

SEN. DEVLIN asked, how far are you in negotiations with the Northern Cheyenne?

SEN. MAZUREK answered, last week we negotiated with their attorney and our attorney to draft the final language. There are a few small issues on the Rosebud as who will administer the program, etc. I am hopeful to get that in before transmittal.

Ms. Cottingham said, the other tribe we have been focusing on is Fort Belknap. It is my understanding they have voted on a proposal and their attorney is drafting it. We have done some preliminary work on this already so a lot of Compact work has been done. We developed a method in analyzing what we think the water should be for each tribe. In working with the Northern Cheyenne we were not working with non-Indians so it wasn't as difficult. When we get into the Flathead we will get into some difficult and legal problems with landownership.

EXHIBIT 10 - Reserved Water Rights Comp. Com. Budget was review by **Ms. Perrigo**: Program Issues - these were reviewed as shown in the Budget sheet. The LFA funded the entire program at 60% RIT funds and 40% General Fund.

Ms. Cottingham reviewed the budget.

Program Issues D.1, one FTE deleted by the LFA - In the first year of the biennium we were authorized 11 FTE, and we filled all but 5 FTE. We started losing personnel, including our Geographic Information Specialist who was here for 6 months and then was lured away into private industry. We started filling positions as we were losing them. As of July 1st of last year we had hired 2 FTE. The Governor asked us to revert a couple of these FTE, and we agreed to eliminate one FTE which brought the Executive Budget down to 12 FTE. When my predecessor resigned in early September, there was a policy decision made not to fill any vacant positions until a new Program Manager was hired.

SEN. MAZUREK said, originally we were going to move the attorney into the Program Manager position. However, we elected not to do that and it was our decision to wait.

Item D.2, \$36,000 for Consultation and Professional Services - **Ms. Cottingham** said, she would ask **SEN. MAZUREK** to address the reason we did not spend these funds.

SEN. MAZUREK stated, these fund are requested for contracting with outside legal counsel to assist in negotiations. With the Northern Cheyenne we felt if we brought in a "hired gun" it would upset what we had going, especially since the Northern Cheyenne attorney is a contemporary of mine and was easy to work with. However, in our upcoming negotiations with the Milk River Tribes we will need to hire someone who can spend more time on negotiations and has more expertise on negotiations. That is the reason we need this funding.

In regard to **McOmber's** views that we are spending a lot of money, I might point out he is a minority of 8 people on the Commission. If we want a 3 member full-time Commission and make them part of the Public Service Commission it may be more efficient. However, we may not have the expert people we have now.

Item D.3, \$46,672 for computer purchase - the last Legislature authorized us to purchase a single-user work station system. We got a bid for \$70,000 which we rejected as we felt it was too high. Some of our staff who were familiar with computers identified another multi-user system, which could be used to link DNRC Water Resources information to our Geographic Information System. Consequently, we are again requesting funds to purchase a computer system, but a multi-user system instead of a single-user system.

Ms. Cottingham reviewed a map with the committee showing the water claims which was done by computer. This would be a 3 year lease purchase so we would hope the committee will approve this budget.

SEN. WEEDING asked, does this fit into the network system?

Ms. Cottingham replied, this is a different system and will not

be tied in to the network system.

Item D.4, the Maintenance Contract of \$12,035 for the Computer System - If funds are appropriated for the computer system purchase, It essential we have a maintenance contract for that system.

E. Additional Issues - The LFA and the Executive do not include Pay Exceptions which have already been approved by the state.

SEN. BENGTON asked, does the \$65,846 cover the pay exceptions.

Mr. Schweitzer stated, yes, that's how much it takes to fund the pay exceptions. However, the pay plan is fully funded, and we don't feel the agency needs this additional amount.

SEN. MAZUREK stated, in a small 12 person agency we will have to hold 2 positions open in order to fund the pay exceptions. We have already lost people because of higher salaries elsewhere and it is frustrating.

Mr. Schweitzer said, last year when the agency came in for 3 & 5 additional people it coincided with our discussion on the RIT funds and how they would be distributed. The Chairman of this committee at that time came up with a creative way of financing this.

SEN. BENGTON asked, how many people did you have the last session?

Ms Cottingham replied, there were 6 authorized for the previous biennium and the legislature authorized an additional 5 in FY90 and 7 in FY91 and we gave one back.

Mr. Schweitzer stated, last year there was \$292,00 of RIT in the Executive Budget which was 60%. The other 40% was General Fund. When we took the position out we took it out entirely from General Fund. We didn't use the 60-40 split because we wanted the General Fund savings. Therefore, our program is about 30-70.

Ms. Perrigo explained, the FTE which was eliminated by the LFA was at 60-40 and the one eliminated out of the Executive Budget doesn't show up here.

Mr. Schweitzer said, there is one FTE out of the Governors and the LFA took out 2 FTE and we recommend putting one back.

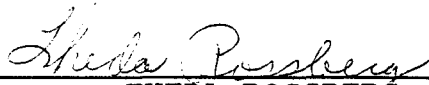
SEN. DEVLIN suggested holding off on funding this program until the meeting with Long Range Planning on Friday.

ADJOURNMENT

Adjournment: 12:00 P.M.



REP. BERV KIMBERLEY, Chair



THEDA ROSSBERG, Secretary

BK/tr

HOUSE OF REPRESENTATIVES
NATURAL RESOURCES SUBCOMMITTEE

ROLL CALL

DATE 1-29-91

NAME	PRESENT	ABSENT	EXCUSED
SEN. ESTHER BENGTON, VICE-CHAIR	✓		
REP. ED GRADY	✓		
REP. JERRY NISBET	✓		
SEN. GERRY DEVLIN	✓		
SEN. CECIL WEEDING	✓		
REP. "BERV" KIMBERLY, CHAIRMAN	✓		

ENERGY DIVISION

Full Time Equivalent Employees	Fiscal 1990 Actual	Fiscal 1991 Appropriated	Fiscal 1992		Fiscal 1993	
			Base	Incr/Decr	Base	Incr/Decr
	40.00	40.00	40.00	.00	40.00	.00
Personal Services	1,078,124.78	1,199,481	1,189,570	2,708	1,192,278	2,704
Operating Expenses	444,330.52	1,361,474	1,874,951	42,025	1,916,976	183,643
Equipment	38,882.10	12,704	12,704	-2,235	10,469	-850
Capital Outlay	443,740.62	0	0	0	0	0
Grants	154,555.00	891,807	1,480,000	77,500	1,557,500	166,500
Debt Service	6,104.69	5,938	6,638	0	6,638	0
Total Agency Costs	\$2,165,737.71	\$3,471,404	\$4,563,863	\$119,998	\$4,683,861	\$351,997
General Fund	413,505.71	513,572	500,876	-3,916	496,960	591
State Special Revenue Fund	934,478.01	1,215,307	2,684,827	15,347	2,700,174	15,347
Federal Special Revenue Fund	817,753.99	1,742,525	1,378,160	108,567	1,486,727	336,059
Total Funding Costs	\$2,165,737.71	\$3,471,404	\$4,563,863	\$119,998	\$4,683,861	\$351,997
					\$4,565,619	\$351,997
						\$4,917,616

Overview

The staff of the Energy Division administers the Energy Supply Emergency Powers Act, the Montana Major Facility Siting Act (MFSA), the Alternative Energy Grant and Loan Program, the State Building Energy Conservation Program, and federally-sponsored energy conservation programs. These responsibilities, along with related duties, are carried out by three bureaus, the administrator and his staff.

The Planning and Analysis Bureau identifies and evaluates energy issues that could significantly affect Montana, including regional and federal initiatives, and formulates recommendations for Montana officials. The bureau also represents the state directly on various technical and policy groups within and outside Montana. The bureau administers the Energy Supply Emergency Powers Act and monitors petroleum supplies and demand in Montana. The bureau conducts short-term (contingency) and long-term energy planning studies for electricity, natural gas, and petroleum. The bureau is responsible for conducting energy needs and alternatives analysis

required under MFSA and the Montana Environmental Policy Act (MEPA). Further, it collects and updates energy data, conducts feasibility studies of alternative energy resources and energy conservation, provides economic and financial analyses to the rest of the division and the Department, and evaluates energy conservation programs operated by the division.

The Facility Siting Bureau designs and conducts environmental impact and monitoring studies and performs analyses of energy projects under either MFSA or MEPA. The bureau also conducts and/or supervises impact assessment and research studies when its environmental expertise is requested by the Board of Natural Resources and Environment (Board), other bureaus, divisions, or state or federal agencies. The bureau 1) writes, oversees, and implements administrative rules for MFSA; 2) evaluates the environmental and economic impacts of transmission lines, power plants, pipelines, and other major energy facilities, or projects in accordance with rules, and regulations of MFSA, MEPA or other environmental laws; 3) monitors construction and cleanup activities to determine compliance with requirements that

accompany approval of projects; and 4) researches and gathers information to formulate and recommend environmental standards, siting policies and mitigating measures for adoption by the Board or other state agencies.

The Conservation and Renewable Energy Bureau's purpose is to improve the productivity of the energy used in Montana by encouraging energy conservation and reducing the state's dependence on fossil fuels, in part, by promoting the use of competitively priced renewable resources. Bureau staff members administer the Alternative Energy Grant and Loan Program, the State Building Energy Conservation Program and approximately ten other federally funded conservation programs. Coal severance tax funding for the Alternative Energy Grant and Loan Program (Mont. Code Ann. §90-4-101 et seq. (1989)) was discontinued by the 1989 Legislature; the grants and loans provided under the program were stopped in 1987. Matching funds for the federally funded conservation

programs are provided from repayments of loans made under the program. The State Building Energy Conservation Program reduces operating costs in state facilities by identifying and funding the installation of cost-effective energy efficiency improvements. Under this program the Board of Examiners sells general obligation bonds to fund energy conservation and efficiency improvements to state facilities. These improvements include activities such as replacing old, inefficient boilers, increasing ventilation system efficiency, insulating buildings, and providing more effective temperature controls. The energy cost savings from these improvements offset the bond repayments. The projects are structured so that the annual dollar savings resulting from the energy improvements exceed the debt service on the bonds. The bureau also is responsible for development and implementation of several energy conservation programs under the U.S. Department of Energy and Bonneville Power Administration.

MANAGEMENT, PLANNING AND FACILITY SITING

	Fiscal 1990 Actual	Fiscal 1991 Appropriated	Base	Fiscal 1992 Incr/Decr	Recommended	Base	Fiscal 1993 Incr/Decr	Recommended
Full Time Equivalent Employees	16.00	16.00	16.00	.00	16.00	16.00	.00	16.00
Personal Services	557,052.90	505,280	503,274	1,149	504,423	503,251	1,149	504,400
Operating Expenses	150,390.64	1,052,823	1,255,872	12,517	1,268,389	1,256,036	15,639	1,271,675
Equipment	20,322.58	8,504	8,504	-2,235	6,269	8,504	-850	7,654
Capital Outlay	443,740.62	0	0	0	0	0	0	0
Grants	13,500.00	0	0	0	0	0	0	0
Debt Service	547.69	842	842	0	842	842	0	842
Total Agency Costs	\$1,185,554.43	\$1,567,449	\$1,768,492	\$11,431	\$1,779,923	\$1,768,633	\$15,938	\$1,784,571
General Fund	413,505.71	502,369	500,876	-3,916	496,960	501,114	591	501,705
State Special Revenue Fund	755,087.88	1,021,062	1,222,521	15,347	1,237,868	1,222,492	15,347	1,237,839
Federal Special Revenue Fund	16,960.84	44,018	45,095	0	45,095	45,027	0	45,027
Total Funding Costs	\$1,185,554.43	\$1,567,449	\$1,768,492	\$11,431	\$1,779,923	\$1,768,633	\$15,938	\$1,784,571

Goals

THE ADMINISTRATOR AND STAFF

- o Administer all Energy Division programs and activities to conform with directions provided by the Montana Legislature within funding limits established through the appropriations process.
- o Oversee expenditures within the division to ensure that the Energy Division programs and activities are carried out at the lowest cost and expenses are consistent with the intent of the appropriation.

PLANNING AND ANALYSIS BUREAU

- o Provide state decision makers with adequate analysis, information, and recommended courses of action so they can influence the direction of state, regional, and national energy policies.
- o Maintain the state's capacity to anticipate and respond to an energy emergency.

- o Promote integrated resource planning, policies, and programs that provide energy services to consumers at the minimum cost consistent with acceptable risk, reliability, and security.

- o Provide the Director, other divisions, and program managers with economic, financial, and other technical analyses to identify the most economical courses of action for the Department, or support regulatory recommendations to the Board of Natural Resources.

FACILITY SITING BUREAU

- o Administer the Major Facility Siting Act (MFSA), which regulates the location, construction, and operation of large-scale energy facilities.

- o Serve as principal environmental assessment team for the Department and when requested, assist other Montana state government agencies in complying with the Montana Environmental Policy Act (MEPA) and other state statutes.

DATE 1-29-91

o Coordinate and streamline joint federal/state review and decision-making on MFSA or MEPA projects through existing Memoranda of Understanding with federal agencies.

Authorization

Mont. Code Ann. §90-4-301 et seq. (1989)
Energy Supply Emergency Powers Act establishes necessary planning, information gathering and energy emergency response powers for the Governor and provides for the regular monitoring of energy supplies and demand.

Mont. Code Ann. §75-20-101 et seq. (1989)
Major Facility Siting Act ensures that new major energy facilities are built only when consumers need the energy they would supply, and that their construction and operation impose minimum cost and the least adverse impact on people and the environment.

Mont. Code Ann. §75-1-101 et seq. (1989)
Montana Environmental Policy Act requires the state to explicitly document possible environmental impacts and evaluate alternative actions when considering major projects, programs, and legislation that might significantly affect the quality of the human environment.

Base Program

The Energy Management, Planning and Facility Siting activity includes the functions that are performed by the Planning and Analysis Bureau, the Facility Siting Bureau, and the administrator and his staff.

THE ADMINISTRATOR AND STAFF

Within the Energy Division, the administrator and his staff are responsible for administering all of the division's programs and activities to conform with directions provided by the Montana Legislature, within the funding limits established. The administrator directs the division's monetary and human resources by establishing policies and work priorities to effectively deliver the products and services the Energy Division

provides. He and his staff oversee the division's expenditures and develop, evaluate and select alternative means to achieve the division's goals while minimizing costs. This unit prepares the division's budget request to the legislature each biennium and responds to inquiries from the legislative branch.

General fund appropriations and expenditures within the Management, Planning and Facility Siting Activity have decreased markedly in response to the division's attempts to hold costs down and become more efficient. This is the only activity that receives general fund support within the division.

The graphs on the following page reveal that actual general fund appropriations decreased 28 percent between FY83 and FY90 ; if the appropriations are adjusted for inflation, the decrease is 45 percent. During the same period, actual expenditures declined 24 percent; or 39 percent after the figures are adjusted for inflation. The division's FY92 general fund appropriation request is less than what was actually appropriated in FY91.

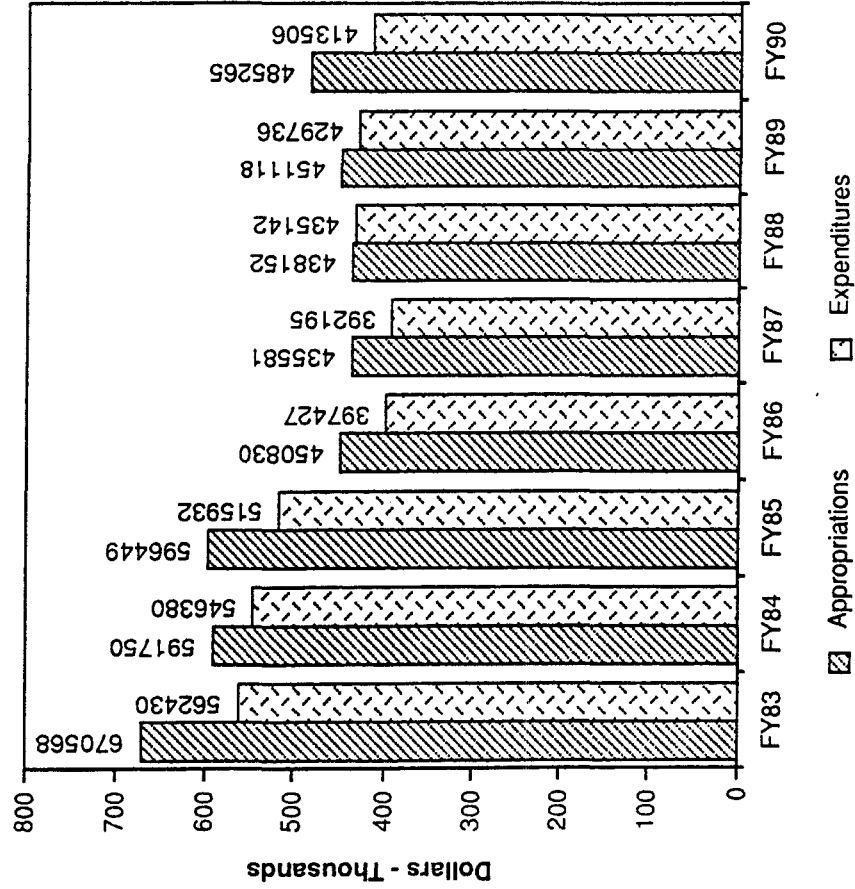
PLANNING & ANALYSIS BUREAU

Planning is handled primarily by the Planning and Analysis Bureau. The bureau has four major areas of responsibility: energy policy analysis, energy emergencies, energy planning, and economic and financial analysis. The administrator works directly with the bureau on energy policy issues.

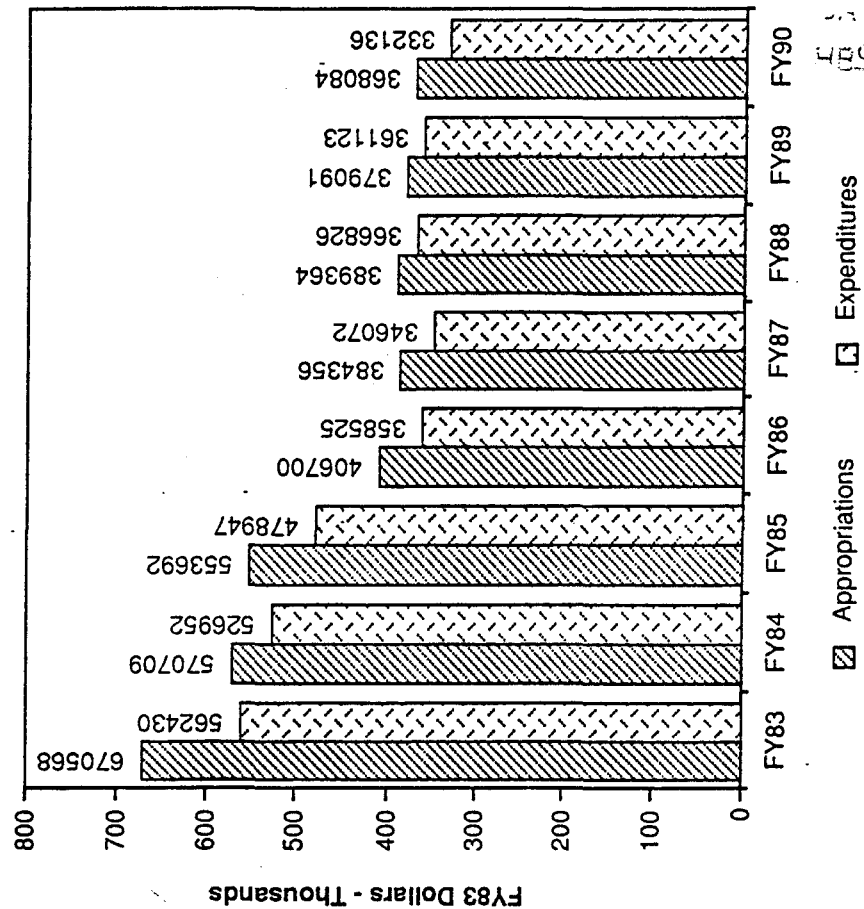
Energy Policy Analysis

Information and analyses of energy issues that affect Montana are provided directly to the Governor, the Department director, the administrator and other state decision makers. This information is often submitted in briefing papers that define the various courses of action open to the state, with recommendations on how the state's interests may best be served. Many of the energy policies that most profoundly affect Montana are made outside the state, where Montana's interests are unlikely to be explicitly considered. Energy issues affecting

APPROPRIATIONS AND EXPENDITURES



APPROPRIATIONS AND EXPENDITURES ADJUSTED FOR INFLATION



1-29-91
ENERGY DIVISION

Montana are shaped by Congress, federal agencies such as the Bonneville Power Administration, the Federal Energy Regulatory Commission, and the departments of Energy, Interior, and Transportation. Montana decision makers must understand how national or regional energy issues affect the state in order to best represent Montana's concerns when policies are formulated in response to these issues.

Regional and national policies have a substantial impact on Montana because Montana is an energy producing state and Montana's major industries are highly dependent on an affordable and reliable supply of energy. Proposed federal legislation to adopt an oil import fee is one example of a policy that could affect the state profoundly. The Energy Division analyzed the proposal and found that it could easily cost Montana industries and consumers over \$100 million annually. Other examples are 1) federal loan repayment reforms proposed in the President's budget, with a cost to Montana electricity consumers of over \$50 million annually, and 2) the various Congressional proposals to amend the Clean Air Act, the potential impact of which the Energy Division is currently studying.

Energy is once again a national priority. Both Congress and the federal agencies now confront the state with far more energy initiatives than in recent history. One of the most significant new federal initiatives is the current U.S. Department of Energy effort to develop a National Energy Strategy. Although it is too early to identify the implications such a strategy would have for Montana, it is clear that the resulting programs and policies will have substantial impact on the state. The strategy will address all energy sources, including petroleum, oil, natural gas, coal, electricity, renewable energy, and energy conservation, in every energy-consuming and producing sector. Ensuring that Montana's interests are satisfactorily addressed in the face of this major initiative will require the Energy Division to participate in the development of the strategy, to analyze its implications for Montana, and to recommend courses of action for the state to pursue as the strategy is implemented. Analyzing and responding to the National Energy Strategy will be a major Energy Division activity

for the foreseeable future.

The Energy Division represents the state on energy-related committees formed by organizations such as the Northwest Power Planning Council, Bonneville Power Administration, National Governor's Association, Western Interstate Energy Board, and Committee for Regional Electric Power Cooperation. Energy policies that address significant energy issues are often formulated in these committees. The Energy Division makes written and oral arguments to incorporate Montana's perspective in the committee recommendations. An example of a task force in which the Energy Division represents the state is the Keystone 2 project on electricity transmission; this task force is formulating national policies to improve the siting of major transmission lines and to increase use of the existing electricity transmission system.

In support of its analyses, the Energy Division maintains a current and consistent set of energy information and data. This information and data also are available to other state agencies, the legislature, and the general public. The Energy Division annually updates this information and data and, when funding permits, publishes the "Montana Historical Energy Statistics" for distribution to interested parties.

Energy Emergencies

The Montana Energy Supply Emergency Powers Act calls for continuous monitoring of energy supplies and demand in order to maintain the state's ability to respond to an energy emergency. The Act further provides the Governor with emergency powers to respond to an energy shortfall. The monitoring and contingency planning have been delegated to the Energy Division.

Montana's geographic location, pipeline system, oil production, and supply and refinery arrangements make the state particularly vulnerable to petroleum supply disruptions. Montana's unique supply situation and heavy dependence on diesel fuel make the impacts of supply disruption worse in Montana than in the rest of the country. The Strategic Petroleum Reserve (SPR) is the

federal government's only strategy for dealing with a major U.S. petroleum supply disruption, yet the physical constraints of the pipeline transportation system prevent any SPR oil from reaching Montana. It is critically important for the state to collect data and maintain petroleum supply expertise in order to respond when a threatening situation occurs. Failure to do so could result in unnecessary health and safety risks for Montanans dependent on oil for heat; it certainly would cause significant disruption to the state's economy. If these energy emergency capabilities are not maintained, the state will be no better off than it was in 1979, when the rest of the country, in the midst of a gasoline shortage, failed to understand the economic disruption caused by a diesel fuel shortage in Montana.

The Energy Division maintains the state's computerized petroleum monitoring data base. This contains data on oil refinery production, volume of oil delivered through pipelines, petroleum inventories and consumption in Montana, and the status of supplies and demand. Information is compiled and provided to the Governor as needed so he can take appropriate action to remedy any potential problem. In case of emergency, the Energy Division provides status reports and briefings including recommendations for emergency responses.

The gradual disappearance of the regional power surplus makes electricity supplies an issue of growing concern, particularly when it appears that Montana and other regional utilities are reluctant to commit to new generating resources. Supply and demand of electricity in the state is monitored by analyzing reports and forecasts prepared by investor-owned utilities, rural electric cooperatives, Northwest Power Planning Council, and Bonneville Power Administration. Briefing papers and status reports are provided to government decision makers.

Monitoring future electricity supplies is accomplished in part under the Montana Major Facility Siting Act, which requires utilities to submit long-range projections of their plans to build new large-scale generating sources. The Energy Division reviews and evaluates these long-range plans and prepares summary data for distribution to

the public.

Critical state players must be able to assume their responsibilities at a moment's notice if the state's energy emergency preparedness is to be maintained. The Energy Division plans to initiate an annual seminar and workshop to inform the Governor, state agencies, and the Legislative Energy Policy Committee of Montana's energy outlook. The division also will review the responsibilities and authority of these parties under the Montana Energy Supply Emergency Powers Act and the Montana Energy Emergency Contingency Plan.

With United States oil imports at all time record high levels, the Department of Energy is sharpening its focus on energy emergency planning and is working more closely with the states in coordinating state/federal responses to energy emergencies. The Energy Division participates in the Department of Energy's annual energy response simulation exercise to ensure that the state's response meshes with the actions of the federal government.

Energy Planning

Through energy planning, the Energy Division recommends which government policies and programs and which private sector initiatives the state should promote to provide energy services to consumers at the minimum cost consistent with acceptable reliability and security. The Energy Division has begun working with utilities to develop integrated resource or least cost resource plans to serve the future needs of their customers. The Energy Division has been active in the development of Montana Power Company's integrated resource plan through participation in MPC's Conservation and Least Cost Planning Advisory Committee.

The utility industry is going through structural changes and is moving toward increased competition in construction and operation of generating facilities. Furthermore, conservation is becoming accepted as a low-cost way of meeting utility load growth. These major changes, plus the increased utility emphasis on integrated resource planning to serve future loads, suggest that the state should reevaluate its role to ensure that it is encouraging utilities to acquire least-

cost resources. The Energy Division will continue participating in public and private sector efforts to review and evaluate utility resource planning and make recommendations for necessary changes in utilities' plans, state energy policies, and the regulatory structure.

Also, as part of its planning efforts, the Energy Division analyzes the cost effectiveness of various strategies for incorporating energy efficiency into new houses so builders will know the most economical energy efficiency measures to install. To complement this analysis, the Energy Division surveys home builders in Montana on a biennial basis to determine what energy efficiency measures are being built into new houses.

The Energy Division evaluates the effectiveness of its own energy conservation programs and activities to determine how these programs can be improved and what programs should be offered in the future.

Economic and Financial Analysis

The Energy Division provides economic, financial, and other analyses to the Department director, to other divisions within the Department, and to program managers within the division. These analyses provide the basis for identifying the most economical method for carrying out the Department's functions. They also provide a basis for regulatory recommendations to the Board of Natural Resources and Environment. These analyses examine specific proposals, and the results are presented in reports with the Energy Division's findings and recommendations. For example, the division evaluated the economic feasibility of proposed irrigation projects for the Clark Fork River water reservation process and is performing similar studies for the Missouri River reservation proceedings. It also estimated the value of a hydro-electric facility in a foreclosure action brought by the Department when the project's sponsor defaulted on his Water Development Program loan.

The Department often is called upon to make decisions with significant financial and economic impact to Montana taxpayers or other parties in the state. Making the best

possible decision for the state requires the Department to undertake thorough and objective economic and financial analyses. The Energy Division provides these. An example is the analysis that led to the Department's decision to proceed with the Broadwater Hydroelectric project. The Energy Division also prepares economic analysis for environmental impact statements required by MFSA or MEPA.

FACILITY SITING BUREAU

The Energy Division administers the Montana Major Facility Siting Act and ensures departmental compliance with the Montana Environmental Policy Act. The Facility Siting Bureau handles most of these responsibilities.

Major Facility Siting Act

The Montana Major Facility Siting Act (MFSA) regulates the location, construction, and operation of large-scale energy facilities. The Act is intended to ensure that new energy facilities are built only when consumers need the energy they would supply, and that their construction and operation impose minimum costs on society and produces the least impact on people and the environment. Alternatives to the proposed facility must also be developed and analyzed. The option recommended to the Board of Natural Resources and Environment (Board) must represent the best balance among benefits, costs, and environmental impacts.

Prospective developers of major new energy facilities apply to the Department for a certificate of compliance with the Siting Act. The Energy Division reviews the application in its role as staff to the Board. The Board decides whether a certificate will be granted. The division's review normally requires environmental analysis and the preparation of an environmental impact statement.

When applicants request, the Energy Division provides preapplication assistance. Such assistance includes clarification of regulatory procedures and the nature of the information needed to complete the review. As a result of this assistance, the information submitted with

the application is more likely to fulfill the Siting Act requirements, which helps streamline the permitting process.

Following Board certification of proposed facilities, the Energy Division monitors project construction, reclamation and mitigation for compliance with conditions imposed by the Board in the certificate. When the Board's conditions have been met, the Energy Division recommends the release of reclamation bonds.

The Energy Division also reviews federal facilities proposed by the Bonneville Power Administration (BPA) and the Western Area Power Administration (Western) to determine whether they would comply with the substantive standards of the Siting Act. In cases where joint state/federal review is needed to ensure that federal projects comply with the Siting Act, the division coordinates and streamlines the review through Memoranda of Understanding with the federal agencies involved. The division also monitors construction and operation of energy facilities built in the state by BPA or Western, to ensure compliance with substantive standards of the Siting Act.

Whenever necessary, the Energy Division adopts or revises Siting Act rules as required by changes in legislation, program, or policy.

As part of the environmental impact mitigation for the BPA 500 kilovolt line from Garrison west, the division provides a representative to the Rock Creek Advisory Council, which advises the Board on the expenditure of funds that were set aside for mitigation purposes. The Council meets approximately 14 times a year.

MFSA requires utilities to submit long-range projections of their plans to build new generating sources large enough to fall under the authority of the Act. The Energy Division reviews and evaluates these long-range plans and prepares summary data for distribution to the public.

Montana Environmental Policy Act

Under this function, the Energy Division operates as the principal environmental assessment team for the Department and, when requested, assists other Montana state government agencies in complying with the Montana Environmental Policy Act (MEPA) and other state statutes. MEPA requires that decision makers be informed of the environmental consequences of prospective state actions. The extent of the required environmental analysis depends on the magnitude and significance of the actions contemplated. If the action is substantial enough to pose a danger of serious environmental damage, an environmental impact statement (EIS) is prepared. The Energy Division researches and writes legally sufficient EISs for the Department and other state agencies, pursuant to MEPA and other state laws, such as the Strip and Underground Mine Reclamation Act, the Hardrock Reclamation Act, and the Water Use Act. For agencies other than the Department these documents are prepared under contract, and must meet contractual or statutory deadlines.

When both state and federal agencies have jurisdiction over a proposed action, the Energy Division cooperates with the federal agencies involved to produce joint state/federal environmental analysis, which streamlines the process and reduces costs to the applicant.

Under this function, the Energy Division supports other Department programs by conducting environmental evaluations, providing project management, and reviewing and commenting on impact statements written by other agencies. In some cases, such as with the Reclamation and Development Grant program, the Energy Division assists by evaluating applications for funding proposed projects.

Base Funding

General funds and fees assessed to project applicants under MFSA and MEPA support most management, planning and facility siting activities within the Energy Division. Small sums of oil overcharge and federal funds supplement them.

Funding for the administrator and his staff comes from the general fund. The administrator also oversees activities that occur under an intergovernmental agreement which provide BPA funds to ensure consultation between BPA and the state. This agreement covers travel, per diem, and supply expenses only. It provides a mechanism for reimbursing any executive branch state agency, the Public Service Commission, and the Legislature, for travel expenses that are incurred in response to BPA's invitation.

The Planning and Analysis Bureau receives money from the general fund, oil overcharge funds, and fees assessed to project applicants under MFSA and MEPA. The bureau uses project fees to assess whether consumers would need the energy that would be supplied from proposed projects.

The Facility Siting Bureau is funded by fees assessed to project applicants under MFSA, MEPA, and other state statutes and by general funds. Project fees are used to fund all project-specific activities, including evaluation of applications, preparation of EISS, Board proceedings, and compliance monitoring. Federal energy agencies provide funds for review of federal energy projects. The budget request for the Facility Siting Bureau contains no FTE's for the preparation of EISS. The personnel needed to prepare EISS are incorporated into the budget under contractual sources that are funded by project fees. General funds are used to support activities such as preapplication consultation, administrative rule review and revision; and responding to public and agency requests for environmental or public safety information for which DNRE cannot collect a fee under the authorizing statutes.

Performance Indicators

THE ADMINISTRATOR AND STAFF

Energy Division programs and activities achieve the objectives established for FY 92-93. Alternatives for providing services are considered and low cost alternatives that supply comparable services are selected. SBAS reports are reviewed, and summary budget status reports are prepared each month. Budget requests and the accompanying narrative justification are prepared properly and in accordance with established schedules and OBPP's directives.

PLANNING AND ANALYSIS BUREAU

It is difficult to quantify program performance in strict numbers of items processed, studies done or issues analyzed. Often, there is no similarity between the different studies and issues. Some may be fairly small projects or issues taking only a few days to complete and having little economic implication for the state. Others may be extremely complex, have profound impact on the state, and may take six months to a year to complete. Further, since no one can predict the future, many unforeseen events will significantly affect the nature and amount of work that will be performed.

FY90 Actual	FY91 Enacted	FY92 Base	FY93 Base
-	-	-	-
-	-	-	-
-	-	-	-

	<u>FY90 Actual</u>	<u>FY91 Enacted</u>	<u>FY92 Base</u>	<u>FY93 Base</u>
<u>Energy Policy</u>				
Issues analyzed, briefing papers prepared	15	15	15	15
Attend policy committee meetings to present state concerns	36	24	24	36
Annual update of <u>Historical Energy Statistics data base</u>	1	1	1	1
<u>Energy Supply Emergency Powers Act</u>				
Prepare status reports, briefing papers on petroleum supplies as events dictate	1	1	1	1
Prepare briefing papers and status reports on electricity supplies as events dictate	3	3	3	3
Prepare summary tables from review of long-range plans	1	1	1	1
Hold annual seminar and workshop	-	1	1	1
Attend DOE regional energy emergency simulation exercises	1	1	1	1
<u>Energy Planning</u>				
Complete recommendations and prepare report for Least Cost Planning Advisory Committee	1	1	-	-
Participate in energy planning studies	-	1	1	-
Analysis of cost effective building and preparation of report	1	-	-	1
Building practice survey completed and report prepared	1	-	1	-
Program evaluations completed and reports written	3	3	3	3
<u>Economic and Financial Analysis</u>				
Analysis completed and reports written	3	3	3	3

DATE 1-29-91
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FACILITY SITING BUREAU

	<u>FY90 Actual</u>	<u>FY91 Enacted</u>	<u>FY92 Base</u>	<u>FY93 Base</u>
Major Facility Siting Act				
Applications processed	2	2	2	3
Federal facilities reviewed	1	1	2	1
Monitoring/compliance reports prepared	5	5	5	4
Rock Creek Advisory Council meetings staffed	14	14	14	14
Adoption or revision of administrative rules				1
Preapplication consultation provided	4	4	5	5
Federal/state review meetings staffed	3	3	3	3
Joint state/federal project agreements completed	2	2	1	2
Responses to requests for public health data	36	40	48	56
Montana Environmental Policy Act				
Environmental analyses completed	2	2	2	2
State/federal coordination meetings conducted	8	8	8	8
Environmental compliance assistance requests responded to	4	4	4	4

ENERGY CONSERVATION

	Fiscal 1990 Actual	Fiscal 1991 Appropriated	Base	Fiscal 1992 Incr/Decr	Recommended	Base	Fiscal 1993 Incr/Decr	Recommended
Full Time Equivalent Employees	24.00	24.00	24.00	.00	24.00	24.00	.00	24.00
Personal Services	521,071.88	694,201	686,296	1,559	687,855	685,671	1,555	687,226
Operating Expenses	293,939.88	308,651	357,874	29,508	387,382	360,114	168,004	528,118
Equipment	18,559.52	4,200	4,200	0	4,200	4,200	0	4,200
Grants	141,055.00	255,000	255,000	77,500	332,500	255,000	166,500	421,500
Debt Service	5,557.00	5,096	5,096	0	5,096	5,096	0	5,096
Total Agency Costs	\$980,183.28	\$1,267,148	\$1,308,466	\$108,567	\$1,417,033	\$1,310,081	\$336,059	\$1,646,140
General Fund	0.00	11,203	0	0	0	0	0	0
State Special Revenue Fund	179,390.13	194,245	237,306	0	237,306	237,294	0	237,294
Federal Special Revenue Fund	800,793.15	1,061,700	1,071,160	108,567	1,179,727	1,072,787	336,059	1,408,846
Total Funding Costs	\$980,183.28	\$1,267,148	\$1,308,466	\$108,567	\$1,417,033	\$1,310,081	\$336,059	\$1,646,140

Goals

- o Increase energy efficiency and reduce energy costs in schools and hospitals.
- o Increase energy efficiency and reduce energy costs in commercial and institutional buildings and operations.
- o Increase energy efficiency in new residential and commercial building construction.
- o Increase energy efficiency and reduce costs in agricultural and wood products industries.
- o Improve the markets for agricultural and timber products as energy resources.
- o Increase awareness of energy conservation techniques and renewable energy technologies, which will enable Montanans to make informed choices on resources and products to meet their energy needs.

Authorization

42 U.S.C.: §6371 et seq. Pub. L. No. 95-619

The Institutional Conservation Program was established through the federal Energy Conservation Policy Act to reduce energy use and costs in schools and hospitals.

24 U.S.C. §6321 et seq. Pub. L. No. 94-163
The State Energy Conservation Program was established through the federal Energy Policy and Conservation Act to promote the conservation of energy and to reduce the growth rate of energy demand.

42 U.S.C. §7001 et seq. Pub. L. No. 95-39
The Energy Extension Service was established through the federal Energy Research and Development Administration Act to provide small energy users with information that will help them make the most economical choices to address their energy needs.

41 U.S.C. §501 et seq. Pub. L. No. 96-501
The Pacific Northwest Electric Power Planning and Conservation Act was enacted to ensure an adequate, efficient, economic and reliable power supply for the Pacific Northwest. Under this Act the Northwest Power Planning Council has directed the Bonneville Power Administration to develop energy conservation programs. The Technical Assistance Program and Residential

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ENERGY CONSERVATION

	Fiscal 1990 Actual	Fiscal 1991 Appropriated	Base	Fiscal 1992 Incr/Decr	Recommended	Base	Fiscal 1993 Incr/Decr	Recommended
Full Time Equivalent Employees	24.00	24.00	24.00	.00	24.00	24.00	.00	24.00
Personal Services	521,071.88	694,201	686,296	1,559	687,855	685,671	1,555	687,226
Operating Expenses	293,939.88	308,651	357,874	29,508	387,382	360,114	168,004	528,118
Equipment	18,559.52	4,200	4,200	0	4,200	4,200	0	4,200
Grants	141,055.00	255,000	255,000	77,500	332,500	255,000	166,500	421,500
Debt Service	5,557.00	5,096	5,096	0	5,096	5,096	0	5,096
Total Agency Costs	\$980,183.28	\$1,267,148	\$1,308,466	\$108,567	\$1,417,033	\$1,310,081	\$336,059	\$1,646,140
General Fund	0.00	11,203	0	0	0	0	0	0
State Special Revenue Fund	179,390.13	194,245	237,306	0	237,306	237,294	0	237,294
Federal Special Revenue Fund	800,793.15	1,061,700	1,071,160	108,567	1,179,727	1,072,787	336,059	1,408,846
Total Funding Costs	\$980,183.28	\$1,267,148	\$1,308,466	\$108,567	\$1,417,033	\$1,310,081	\$336,059	\$1,646,140

Goals

- o Increase energy efficiency and reduce energy costs in schools and hospitals.
- o Increase energy efficiency and reduce energy costs in commercial and institutional buildings and operations.
- o Increase energy efficiency in new residential and commercial building construction.

- o Increase energy efficiency and reduce costs in agricultural and wood products industries.

- o Improve the markets for agricultural and timber products as energy resources.

- o Increase awareness of energy conservation techniques and renewable energy technologies, which will enable Montanans to make informed choices on resources and products to meet their energy needs.

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The Institutional Conservation Program was established through the federal Energy Conservation Policy Act to reduce energy use and costs in schools and hospitals.

24 U.S.C. §6321 et seq. Pub. L. No. 94-163
The State Energy Conservation Program was established through the federal Energy Policy and Conservation Act to promote the conservation of energy and to reduce the growth rate of energy demand.

42 U.S.C. §7001 et seq. Pub. L. No. 95-39
The Energy Extension Service was established through the federal Energy Research and Development Administration Act to provide small energy users with information that will help them make the most economical choices to address their energy needs.

41 U.S.C. §501 et seq. Pub. L. No. 96-501
The Pacific Northwest Electric Power Planning and Conservation Act was enacted to ensure an adequate, efficient, economic and reliable power supply for the Pacific Northwest. Under this Act the Northwest Power Planning Council has directed the Bonneville Power Administration to develop energy conservation programs. The Technical Assistance Program and Residential

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Construction Demonstration Program were developed by Bonneville in response to sections 6.0 and 1.0 of the Northwest Power Plan.

Pub. L. No. 101-101

The Regional Bio-energy Programs are funded through the Energy and Water Appropriation Bills to promote the use of biomass energy. Montana participates in the Pacific Northwest and Alaska Regional Bio-energy Program operated by the Bonneville Power Administration.

Mont. Code Ann. §90-4-101 et seq. (1989)

The Alternative Energy Grant and Loan Program was established to stimulate research, development, and demonstration of energy conservation and renewable energy resources that would lessen the state's reliance on nonrenewable energy resources.

Base Program

The Energy Division manages several federal programs funded by the U.S. Department of Energy (DOE) and the Bonneville Power Administration (BPA). Congress originally established the DOE programs to reduce the nation's reliance on imported oil and directed each state to develop and implement plans to reduce energy consumption. The growing national concern over rising oil imports, dwindling reserve capacities, global warming, and acid rain has placed a renewed emphasis on energy efficiency and has increased interest in activities provided by these programs.

Congress passed the Pacific Northwest Electric Power Planning and Conservation Act to ensure the lowest cost electrical energy future for the Pacific Northwest. The Act directs BPA to acquire energy conservation when it is the cheapest resource available, or when its cost is not more than 10 percent above the cheapest alternative resource. The Act also established the Northwest Power Planning Council, made up of representatives from Montana, Idaho, Washington and Oregon, and charged them with implementing the Act. The Council has directed BPA to work with state governments to develop and deliver cost effective energy conservation programs.

The Montana Legislature enacted the Alternative Energy Grant and Loan Program to reduce the state's reliance on fossil fuels. While this program no longer receives any coal severance tax revenues, and the grants and loans provided under the program were stopped in 1987, funds from repayments of loans made under the program provide matching funds for the federal DOE programs. These programs help to reduce the state's reliance on fossil fuels by encouraging energy conservation and the use of renewable energy resources when they are competitively priced.

As shown below, the Energy Conservation Activity can be divided on the basis of the different consumer groups served. The Conservation and Renewable Energy Bureau provides these services.

Schools and Hospitals

Most schools and hospitals were built when energy cost less than it does today. These buildings and the equipment installed in them are not energy efficient by current technological and economic standards. The Energy Division awards grants to increase energy efficiency and reduce energy costs in schools and hospitals. Grants are used to analyze and remodel buildings and modify equipment. The grants are matched dollar for dollar by the participating institutions.

Examination of 24 past Institutional Conservation Program grants to schools showed a 28 percent average annual reduction in natural gas consumption, an annual savings of \$2,644 per school building. One or more grants have been awarded to improve 223 buildings since the program began in 1977. This program may be saving Montana taxpayers as much as \$590,000 annually.

Hospitals may use energy savings to purchase equipment, keep patient costs low or expand their services. St. James Hospital in Butte received a grant early in the 1980s and was able to reduce its natural gas use by 38 percent. The drop in gas use meant less demand was placed on the central heating system. With the savings from energy efficiency, the hospital was able to add the Regional Cancer Center and the Magnetic Resonance Imaging

building without expanding its heating plant. Hospital managers plan to add another 40,000 square feet of facilities and are confident that they can continue to provide efficient heat without expanding the heating plant.

New Construction

The Energy Division works to reduce the energy requirements for new residential and commercial buildings. New construction is targeted because energy conservation measures are easily added during design and construction but are more difficult, more costly, or sometimes impossible to install when remodeling.

The Energy Division works with the Northwest Power Planning Council, utilities, and the Governor's Office to implement an educational strategy targeted at groups such as real estate agents and construction contractors that have a role in improving the energy performance of new houses. The intent of this strategy is to move building practices quickly toward a higher energy efficiency standard such as the Northwest Power Planning Council's Model Conservation Standards. Houses built to these standards require 30 to 50 percent less energy than conventionally built houses. The result is lower utility bills for the home owner and a reduced demand on the utility company for more expensive supplies of power.

The Energy Division trains builders in state-of-the-art methods for incorporating energy-efficient components into new buildings. To reach the next generation of builders, Vo-Tech students are trained in energy-efficient housing design and construction techniques. Real estate agents, lenders, and appraisers are taught how energy-efficient construction can help consumers afford quality housing and save energy and dollars.

The Energy Division, along with BPA and participating utility companies, sponsors demonstration houses to familiarize builders, code officials, and utility personnel with energy-efficient construction, and to test the feasibility of new construction techniques, materials, and equipment in Montana's climate. Builders receive up to \$2,000 to incorporate energy features and

to provide information on construction costs. The division monitors these houses' thermal performance and provides results to builders, utility companies, and homeowners.

To improve the housing on Montana's Indian reservations, Tribal Housing Authorities are encouraged to build energy-efficient structures. Design assistance, on-site technical assistance, and classroom training are provided to contractors who build houses on the reservations. The Salish-Kootenai tribes have a policy that all new houses on the Flathead Reservation will be built to the Northwest Power Planning Council's Model Conservation Standards. The Blackfeet Tribe has indicated it will build 75 new houses to these standards in the next two years.

Homebuyers are encouraged through workshops, publications and personal contacts to consider energy performance when buying or building a new house. These efforts are creating a consumer demand for energy-efficient housing. Builders are responding to the consumers' wants and more builders are attending training sessions and constructing high performance houses every year. This consumer-driven approach is preferable to strict building codes or other regulations that would force building practices to change to incorporate energy technologies.

Commercial/Institutional

Commercial operations depend on energy for lighting, heating and cooling, and for operating kitchens, bakeries, laundry and dry cleaning processes and many other facilities. Most commercial buildings and processes are at least a few years old and were not designed with energy conservation in mind. Energy has come to demand a larger part of businesses' operating costs and can eat into profits, making businesses less viable and threatening economic growth. The Energy Division offers a variety of programs that help business owners or managers reduce energy costs in their buildings and operations and increase profitability.

Information is not readily available on commercial building renovations in cold climates or for small

DATE 1-29-91
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operations like those found in Montana. To remedy this lack of information, the Energy Division publishes and distributes periodic bulletins and case studies on successful energy saving measures implemented by Montana businesses and institutions. One case study was done on St. Peter's Episcopal church in Helena. It showed how the church saves \$2,000 annually on its energy bills. This information was presented to 30 churches at the Montana Association of Churches meeting in 1989 and provided to more than 500 other churches by mail.

The Energy Division contracts for national caliber speakers to address Montana business associations on energy-saving measures specific to their types of businesses. It also conducts workshops to teach building managers and maintenance personnel how to increase the efficiency of boilers, lighting, pumps and motors. Heating, ventilating and air conditioning systems. Videotapes are available to building managers and maintenance personnel who cannot attend the workshops or who need additional information.

Local governments also have buildings that were constructed when energy costs were only a secondary concern. These governments are under increasing pressure to provide services without raising taxes. Local and state government building managers regularly participate with school and hospital managers in workshops and receive publications developed for commercial businesses because all these groups have similar energy uses and potential for savings.

Local governments in western Montana receive additional services through BPA funding. The Energy Division uses BPA funds for contracting with the Montana League of Cities and Towns to design and operate programs for local governments. The League has set up a satellite office, the Montana Local Government Energy Office (MLGEO) in Missoula. MLGEO staff members visit local governments and walk through their city halls, courthouses, shops and other buildings to identify how energy is being used in the buildings and to recommend ways to save energy and dollars in the operation of the facilities. MLGEO also influences city and county government officials' positions on energy issues in Montana and the Northwest.

Industrial

Agriculture and wood products are major industries in Montana. Both have been economically stressed in recent years. While improving energy use alone cannot completely change the economic outlook for these operations, increased efficiency and reduced costs can increase their profitability and help keep marginally profitable farms, ranches, or wood products manufacturers in business.

Montana industry generally uses large amounts of diesel fuel to produce and transport marketable goods. Because of Montana's geographic location and its system for producing, transporting, and refining oil, the state is especially vulnerable to petroleum supply disruptions. In the event of a petroleum supply disruption, Montana probably would run out of diesel fuel before other fuels and would have a difficult time getting enough diesel to meet its needs. A reduction in the amount of diesel consumed by industry reduces vulnerability to petroleum supply disruptions and helps reduce the cost of producing goods and the delivered costs to the consumer.

The Energy Division offers tractor and combine clinics to show farmers and ranchers how to reduce their use of diesel fuel. Fuel consumption in farm tractors can generally be improved by an average of 25 percent. Farmers and ranchers attending workshops can achieve annual savings of up to \$600 for each tractor. A total of 342 tractors were represented at the Department workshops conducted in fiscal years 89 and 90. If each of these tractors were improved by only 5 percent, \$42,000 per year would be saved. If all of the suggestions made at the workshops were implemented and each tractor's efficiency was improved by 25 percent, the savings would be \$210,000 annually. This activity will reach even more farmers and ranchers in the future because in addition to continuing the workshops in several locations throughout the state, videotapes of the workshops will be made available to those who were unable to attend.

The Energy Division's irrigation workshops and publications show irrigators how to reduce their use of

diesel fuel or electricity. The division provided 5,000 Montana irrigators with a pocket guide that they can easily use in the field for implementing energy efficient practices for equipment use and water management. This publication earned national recognition last year when it was selected by the U.S. DOE as the best two-color energy publication written by any of the U.S. states or territories.

The Energy Division provides technical assistance to sawmills, wood pellet plants, and individuals interested in using wood as an energy source. This assistance includes recommendations for reducing operating costs, information on the amount and type of wood available in a particular area, potential markets for the wood, information on regulatory requirements, and assistance throughout the process. At the request of a firm from Tennessee that was interested in relocating to Montana, an Energy Division staff engineer provided information and technical assistance on the wood waste resource available in the Eureka area, financing mechanisms in the state, and regulatory requirements. As a result of these efforts, the Eureka Pellet Mill is now in operation producing 3,000 tons of pellets month from sawmill wastes and employing 26 people. Besides the economic benefits of the new business, the use of wood wastes as an energy source alleviates a disposal problem for the sawmill.

Education/General Awareness

Montana citizens make energy-related choices every day when they purchase and remodel homes, select appliances, and buy vehicles. However, they often neglect to fully consider energy costs in their decisions. The Energy Division provides information to Montana citizens on the benefits of conserving energy and practical ways they can save energy and money when purchasing consumer goods and buying or remodeling existing houses.

One part of this program is aimed at teachers and students in elementary and secondary schools. Teachers attend workshops and presentations and receive curriculum materials developed and adapted for use in Montana. They then present this information in their classrooms.

Students learn at an early age the importance of conserving energy and taking care of the environment and take this message home to their parents.

The second part of this program is aimed at the general population. Fact sheets and booklets are produced and distributed on a wide variety of topics including low cost ways to save energy, tax incentives for conserving, energy costs to operate appliances, wood and pellet burning stoves, wind power, hydro power, and house weatherization methods. These publications are displayed in high traffic areas in county courthouses and libraries around the state to catch the interest of large numbers of people. Information designed to convince consumers to conserve energy is also presented in public service announcements and articles for newspapers and magazines.

Base Funding

Energy Conservation is funded with a mix of federal funds, oil overcharge funds, grant and loan repayments to the Alternative Energy Grant and Loan Program, and contract payments from the Montana Power Company. Federal support comes from the U.S. Department of Energy (DOE), the Bonneville Power Administration (BPA), and the Western Area Power Administration (Western). The oil overcharge funds that the Energy Division is asking to spend were previously appropriated to it to augment federal funding for the DOE programs that are eligible to use the funds. A portion of the past oil overcharge appropriation to these programs will not be spent this biennium. They have been incorporated, as carryover, into the 1993 biennial budget request for the eligible DOE programs.

DOE funds the Institutional Conservation Program, the State Energy Conservation Program, and the Energy Extension Service. Congress appropriates funds to each program and the funds are distributed to the states according to set formulas. Each program has specific rules governing the use of funds. DOE also supports the Bioenergy Program, but it contracts with BPA to administer the program. BPA determines the funding allocations among the Northwest states for this program.

EXHIBIT
DATE 1-29-91
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Each of the four programs funded by DOE requires some level of state match. The Institutional Conservation Program requires a dollar for dollar match. The state must match administrative costs of the program, while the institutions that receive grant awards match their grants. The State Energy Conservation Program and the Energy Extension Service require a 20 percent contribution, while the Bioenergy Program requires the state to contribute one-third of the total program costs. Money that the division acquires through repayment of grants and loans made before 1987 under the Alternative Energy Grant and Loan Program are used to match federal funds. Besides providing the matching funds for DOE programs, grant and loan repayments are also used to monitor outstanding loan accounts.

BPA funds the Technical Assistance and Residential Construction Demonstration Programs. These programs are fully funded with federal funds and do not require a state match. The level of funding for these programs is negotiated annually. These programs are offered only in BPA's service area in western Montana, and only address electrical energy conservation.

The Energy Division receives additional funds for special projects that enhance or expand the work performed by the division. The Montana Power Company contracts for training sessions to be offered to its employees and customers. The Western Area Power Administration funds training for its member utilities and/or its customers. Usually this training is developed for BPA programs and expanded to provide additional needs.

Performance Indicators

Schools and Hospitals
 Grants awarded to schools and hospitals
New Construction
 Builders, vo-tech students and utility personnel trained
 Lenders, appraisers and real estate agents trained
 Demonstration and tribal houses constructed to higher energy efficiency standard
 New home buyers given information to help them understand the energy choices that confront them
 Architects and engineers trained

Commercial and Industrial
 Building managers trained through workshops, videos and print materials
 Local government buildings analyzed for efficiency improvements and on-site technical assistance provided
 Local governments assisted in making energy policy choices

	FY90 Actual	FY91 Enacted	FY92 Base	FY93 Base
	12	40	12	12
	300	350	350	350
	200	300	300	300
	40	75	50	50
	200	250	300	300
	50	50	50	50
	3,000	4,000	4,000	4,000
	8	8	8	8
	10	10	10	10

Industrial
 Farmers and ranchers trained to reduce diesel fuel use in tractors and combines
 Farmers and ranchers trained to improve irrigation practices
 Wood products companies analyzed to improve operating efficiency and on-site technical assistance provided
 New applications of wood or agricultural wastes engineered and constructed

Education/General Awareness
 Teachers trained
 Citizens obtaining energy information

150 150
 100 50
 13 10
 3 4

200 200
 10,000 10,000

Increase or Decrease from Base

<u>Item</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
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Modification Requests:
 Conservation Increase

\$107,000 \$334,500

The Energy Division expects to receive additional federal funds from the U.S. Department of Energy because of the renewed national emphasis on energy conservation and renewable energy as alternatives to high priced and uncertain supplies of imported oil. These funds will be available for grants to develop biomass energy resources from agricultural and wood wastes. The grants will be used to assist in the development of alternative transportation fuels, especially diesel fuel which is critical to the agricultural industry in Montana and for transporting products to and from Montana markets. Grants also will be used to assist in the development of biomass fuels for process heat and space heating in Montana's commercial businesses and industries.

Additional funding also will be available to provide Montana consumers, businesses and industries with information on energy conservation opportunities and other renewable energy options. The Energy Division will examine industries that have a high potential for energy conservation and offer services to assist in accomplishing that conservation. The mining industry will be one of the industries targeted because of the growth in this industry and the relatively high energy use in mining.

EXHIBIT 1
 DATE 1-29-91
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New technologies will be studied for their applicability to Montana. Information on these technologies and assistance in developing or using the new technologies will be provided to the consumers, businesses and industries that can benefit from them. Additional information will be provided to consumers on technologies to renovate existing houses, and to the state and local governments on procurement practices to encourage energy conservation and to institute recycling of paper and oil.

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COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	393.23	393.23	250.20	250.20	143.03
Personal Services	11,806,401	11,792,847	7,468,984	7,458,895	8,671,369
Operating Expenses	17,371,638	17,365,310	3,439,710	3,424,557	27,872,681
Equipment	304,545	303,936	138,300	102,064	368,117
Capital Outlay	5,000,000	5,000,000	0	0	10,000,000
Local Assistance	0	0	91,300	91,300	182,600-
Grants	1,693,098	1,693,098	441,089	441,089	2,504,018
Debt Service	58,133	58,133	33,390	33,458	49,418
Total Agency	\$36,233,815	\$36,213,324	\$11,612,773	\$11,551,363	\$49,283,003
<u>Fund Sources</u>					
General Fund	5,715,059	5,641,217	4,340,048	4,345,573	2,670,655
State Revenue Fund	10,484,996	10,561,434	6,179,571	6,112,828	8,754,031
Federal Revenue Fund	20,033,760	20,010,673	1,093,154	1,092,962	37,858,317
Total Funds	\$36,233,815	\$36,213,324	\$11,612,773	\$11,551,363	\$49,283,003

Executive Budget Comparisons

The LFA current level for the 1993 biennium is \$49.3 million less than the Executive Budget primarily due to the proposed reorganization of the Departments of Natural Resources and Conservation, Health and Environmental Sciences, and State Lands.

Reorganization

Table A shows the net impact to the Department of Natural Resources and Conservation from the proposed reorganization.

Table A
Department of Natural Resources and Conservation
Proposed Reorganization

Function Transferred	Transfers In		Transfers Out		Net	
	FTE	Expenses	FTE	Expenses	FTE	Expenses
Centralized Services*	6.0	\$ 265,726			6.0	\$ 265,726
Environmental Division	125.03	29,023,691			125.03	29,023,691
Reclamation Division	42.0	22,351,957			42.0	22,351,957
Conservation & Resource			20.0	\$2,855,234	-20.0	(2,855,234)
Water Projects			17.0	3,361,985	-17.0	(3,361,985)
Total	173.03	\$51,641,374	37.0	\$6,217,219	136.03	\$45,424,155

*1.0 FTE and \$37,527 transferred from DSL Centralized Services to DNRE Reclamation (Mining) Division.

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

A detailed discussion of the proposed reorganization appears at the beginning of the Natural Resources and Commerce section. The following section discusses issues in the programs of the

current Department of Natural Resources and Conservation.

Table B compares LFA current level to the Executive Budget in those divisions not impacted by the reorganization.

Table B
DNRC Programs
Comparison-LFA Current Level to Executive Budget
1993 Biennium

Division	- - - FTE - - -			- - - BUDGET - - -		
	Executive	LFA	Over/Under LFA	Executive	LFA	Over/Under LFA
1. Oil & Gas Regulation	26.0	22.0	4.0	\$2,315,684	\$1,722,762	\$592,922
2. Reserved Water Rights Compact Commission	12.0	11.0	1.0	894,464	743,884	150,580
3. Energy Division	40.0	38.0	2.0	6,709,977	5,810,466	899,511

A discussion of the major differences is included in the following section.

Issues

FTE Differences

After the effects of the reorganization are removed, the Executive Budget includes a net 7.0 FTE more than the LFA current level as a result of:

- 1) LFA current level eliminates 4.0 FTE from the Underground Injection Control program; and
- 2) 3.0 FTE in Reserved Water Rights Compact Commission and Energy Division were eliminated in the LFA current level due to extended vacancy.

Underground Injection Control

The LFA current level does not include funds for the Underground Injection Control program. While the 1989 legislature authorized this program, the Oil and Gas Regulation Division has not been granted primacy for this program by the federal government and therefore, has made no expenditures or hired any staff to implement this new program.

Since the agency is uncertain when primacy will be granted, no funds for this program were included in the LFA current level. The Executive Budget contains 4.0 FTE and \$572,852 for this program.

Reserved Water Rights Compact Commission

In addition to retaining 1.0 FTE eliminated in the LFA current level, the Executive Budget includes \$46,672 for a new computer system, \$36,000 for outside professional assistance in negotiations with tribes, and \$12,035 for maintenance contracts for the proposed computer system for the Reserved Water Rights Compact Commission. Because the commission was appropriated funds for these purposes by the 1989 legislature but made no expenditures in fiscal 1990, they are not included in LFA current level.

"Cat and Doc Bills"

The Executive Budget includes continuation of several appropriations made in legislation other than the general appropriations bill by the 1989 legislature:

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

1) \$523,310 of federal revenue for the State Building Energy Conservation Bond program in the Energy Division; and

2) \$1,336,000 in state special revenue for expenditures relating to the Broadwater Dam.

Because these appropriations have historically been made in legislation other than the general appropriations bill, they are not included in LFA current level.

Broadwater Dam Operations and Maintenance

The Executive Budget includes \$153,104 more for Broadwater Dam operations and maintenance than the LFA current level. The Executive Budget contains the appropriated fiscal 1991 level of \$300,000 each year for this purpose, while LFA current level maintains expenditures at the fiscal 1990 actual level of \$223,448 per year.

Lake Broadview

The Executive Budget includes \$30,000 for Lake Broadview mitigation measures. The department was appropriated funds for this purpose in the 1991 biennium but made no expenditures. Therefore, it is not included in LFA current level.

Language Appropriations

The Executive Budget recommends two language appropriations that are also included in its current level budget totals:

1) \$306,000 per year of state special revenue for potential loss lien purchases on property used as collateral for state loans; and

2) \$145,000 for the biennium of state special revenue for training builders in energy conservation construction practices.

The LFA current level includes federal funds for the Western Montana, electricity-related Builder Training program at the fiscal 1990 actual expenditure level. The \$145,000

included in the Executive Budget is for electricity and gas related builder training for the remainder of the state and is not included in the LFA current level. LFA current level does not contain funds for the potential loss lien purchases.

Funding

The Executive Budget includes \$2.7 million more general fund than the LFA current level due primarily to the generally higher level of expenditure. However, in two programs, there is a significant difference in funding.

General Fund Water Resources Administration

Water Resources Division administration is funded with a combination of general fund and various state special revenues used in the division's other programs. LFA current level funds administration based upon actual fiscal 1990 expenditures, while the Executive Budget replaces all reclamation and development state special revenue with general fund. As a result, the Executive Budget includes \$285,484 more general fund over the biennium than the LFA current level.

Centralized Services Funding

The Centralized Services Division is funded with assessments levied against state special revenue used to support other agency programs. The balance of the funding needed is funded with general fund. Because LFA current level assumes a higher level of state special revenue funding for other agency programs against which to levy the assessment than does the Executive Budget, it includes \$156,000 less general fund over the biennium.

Executive Budget Modifications

In addition to the \$72.4 million recommended for the Department of Natural Resources and Environment for the 1993 biennium, the Executive Budget also includes \$9.45 million and 3.0 FTE in budget modifications for the department. These budget modifications are discussed in the program narratives.

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	256.20	262.20	250.20	250.20	-12.00
Personal Services	6,651,386	7,691,716	7,468,984	7,458,895	4.08%
Operating Expenses	2,468,321	3,437,234	3,439,710	3,424,557	16.23%
Equipment	265,577	181,474	138,300	102,064	-46.23%
Capital Outlay	448,241	0	0	0	-100.00%
Local Assistance	91,300	95,000	91,300	91,300	-1.99%
Grants	354,369	441,089	441,089	441,089	10.90%
Transfers	2,100,823	32,000	0	0	-100.00%
Debt Service	33,799	53,897	33,390	33,458	-23.77%
Total Agency	\$12,413,816	\$11,932,410	\$11,612,773	\$11,551,363	-4.86%
<u>Fund Sources</u>					
General Fund	3,933,519	4,546,145	4,340,048	4,345,573	2.43%
State Revenue Fund	7,535,679	6,165,582	6,179,571	6,112,828	-10.28%
Federal Revenue Fund	944,618	1,220,683	1,093,154	1,092,962	.96%
Total Funds	\$12,413,816	\$11,932,410	\$11,612,773	\$11,551,363	-4.86%

Agency Description

The Department of Natural Resources and Conservation (DNRC) is responsible for ensuring the wise management, development, conservation, and use of some of Montana's natural resources in a manner consistent with environmental quality. It works to sustain and improve the benefits derived from our water, soil, and rangeland; to encourage energy conservation and the use of renewable energy resources; and to make certain that energy facilities and water projects under its jurisdiction are developed with minimum adverse environmental effects. The department directs a wide variety of programs in meeting these and related goals and objectives. The department is provided for in Section 2-15-3301, MCA.

Current Level Budget

The agency's current level decreases 4.9 percent from the previous biennium primarily due to one-time land purchases and bond transfers in the 1991 biennium. Of the 12.0 FTE reduction from the 1991 biennium, 3.0 FTE are presented in a modified budget request, 3.0 FTE have been deleted due to extended vacancy,

4.0 FTE have been deleted from the Underground Injection Control program, and 2.0 FTE were eliminated by the agency. Despite these reductions, the personal services budget shows a 4.1 percent increase due to vacancy savings that occurred in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Operating expenses increase primarily due to the inclusion of \$996,335 in spending authority for fees collected from environmental analyses required by either the Major Facility Siting Act (MPSA) or Montana Environmental Protection Act (MEPA). In fiscal 1990, \$268,228 was collected and expended for this function. The fiscal 1990 capital outlay was for a one-time purchase of land. Local assistance and grants reflect the agency request. The 100 percent decrease in transfers is due to a change in accounting procedures and the one-time fiscal 1990 transfer of bond proceeds to a debt service account. Debt service in the 1993 biennium includes payments for the department's Digital Equipment Corporation (DEC) computer system and phone systems for Water Resources Division field offices. The fiscal 1991 appropriation also includes a computer system for the

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Preserved Water Rights Compact
Commission.

General fund support increases over fiscal 1990 levels but is less than the amount appropriated in fiscal 1991. State special revenue decreases primarily because LFA current level does not include funds for the Underground Injection Control program and due to a reduction in contracted services in the Water Resources Division. Resource Indemnity Trust (RIT) interest comprises most of the state special revenue funds used in this agency.

Resource Indemnity Trust Accounts

The Department of Natural Resources and Conservation expends funds from three accounts that receive a portion of Resource Indemnity Trust (RIT) interest: 1) Water Development, 2) Renewable Resource Development, and 3) Reclamation and Development.

Water Development

The water development account was created in 1981 to advance the beneficial use of water through financing water development projects and activities. The account receives 30 percent of the RIT interest (after the allocations to the environmental contingency fund and the oil and gas mitigation account are made), 0.475 percent of the coal severance tax, income from state-owned water projects revenues, and repayments.

The following table shows projected revenues, fiscal 1991 appropriations, and 1993 biennium LFA current level disbursements from the account. Based on the current level analysis, an estimated \$2.37 million (less any desired fund balance) is available to fund state-owned water projects and water development grants in the 1993 biennium.

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Table 1
Water Development Account
Department of Natural Resources and Conservation
Fiscal 1991, 1993 Biennium

	Appropriated Fiscal 1991	LFA Fiscal 1992	LFA Fiscal 1993
Beginning Balance	\$1,635,154	\$ 693,435	\$1,491,255
Revenues			
RIT Interest	\$2,259,809	\$2,433,963	\$2,602,956
Coal Tax	230,135	183,287	182,491
Loan Repayments	541,253	550,000	400,670
Administrative Fees	15,000	25,000	25,000
Project Revenues	159,514	167,700	167,700
 Total Funds Available	 <u>\$4,864,730</u>	 <u>\$4,033,385</u>	 <u>\$4,870,072</u>
 Disbursements			
Debt Service	\$ 706,342	\$ 629,934	\$ 599,760
Water Courts	435,065	461,525	455,439
DNRC			
Bd of Ntrl Rsc & Conserv	-0-	3,997	3,998
Central Svc Div	142,020	143,760	143,084
Conserv & Rsc Dev Div*	228,032	211,040	209,977
Water Resources Admin	90,000	84,755	84,616
Water Resources Engineering	755,130	780,523	775,723
Water Resources Water Mgmt	155,238	226,596	226,449
Clark Fork Coordinator	81,296	-0-	-0-
Grants	858,040		
State Water Projects**	716,217		
 Total Disbursements	 <u>\$4,167,430</u>	 <u>\$2,542,130</u>	 <u>\$2,499,046</u>
 Ending Fund Balance	 \$ 697,300	 \$1,491,255	 \$2,371,026

* Includes Water Development.

**Includes emergency projects.

Renewable Resource and Development

The renewable resource development fund is used to make grants and loans to the public for development of renewable natural resources. The fund receives 8 percent of the RIT interest (after the allocations to the environmental contingency fund and the oil and gas mitigation account are made), 0.475 percent of the coal severance tax loan payments and interest.

The following table shows the projected revenues to and appropriated fiscal 1991 and LFA current level 1993 biennium disbursements from the account. Based upon the current level analysis, an estimated \$1.11 million (less any desired fund balance) is available to fund renewable resource projects in the 1993 biennium.

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Table 2
Renewable Resource Account
Department of Natural Resources and Conservation
Fiscal 1991, 1993 Biennium

	<u>Appropriated Fiscal 1991</u>	<u>LFA Fiscal 1992</u>	<u>LFA Fiscal 1993</u>
Beginning Balance	\$ 145,140	\$(26,252)	\$ 524,685
Revenues			
RIT Interest	602,616	649,057	694,122
Coal Tax	230,135	183,287	182,491
Loan Repayments	59,801	64,935	35,000
Interest on Bond Proceeds	<u>35,000</u>	<u>35,000</u>	<u>64,935</u>
Total Funds Available	<u>\$1,096,557</u>	<u>\$906,207</u>	<u>\$1,501,233</u>
Disbursements			
Bond Debt Service	\$ 113,337	\$182,381	\$ 197,850
DNRC			
Centralized Services	15,220	7,549	7,511
Conservation & Resource Dev	137,155	125,812	125,179
Conservation Districts	65,600	65,600	65,600
Grants	745,030		
MSU Genetics	22,602		
Total Disbursements	<u>\$1,098,944</u>	<u>\$381,342</u>	<u>\$ 396,140</u>
Ending Balance	\$ (2,387)	\$524,685	\$1,105,093

Reclamation and Development

The reclamation and development account receives 46 percent of the RIT interest and is used to fund projects to repair, reclaim, and mitigate environmental

damage from resource extraction. The \$3.73 million balance remaining (less any desired fund balance) is the estimated amount available for reclamation and development projects in the 1993 biennium.

EXHIBIT 1-A
DATE 1-29-91
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DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Table 3
Reclamation and Development
Department of Natural Resources and Conservation
Fiscal 1991, 1993 Biennium

	Appropriated Fiscal 1991	LFA Fiscal 1992	LFA Fiscal 1993
Beginning Balance	\$2,219,998	\$ 575,061	\$2,012,375
Revenues	<u>3,465,040</u>	<u>3,732,077</u>	<u>3,991,200</u>
Total Funds Available	<u>\$5,685,038</u>	<u>\$4,307,138</u>	<u>\$6,003,575</u>
Disbursements			
Dept Natural Resources & Conservation			
Bd of Ntrl Rsc & Conservation	\$ 0	\$ 1,918	\$ 1,918
Centralized Services	125,133	168,119	166,603
Conservation Districts*	431,682	486,243	475,357
Rural Econ Development	38,150	30,938	30,922
Water Resources			
Administration	90,000	120,442	120,245
New Water Rights\Adjudication	161,970	153,926	153,564
Water Management	350,000	354,771	354,541
Dam Safety	145,348	156,018	155,780
Reserved Water Rights	281,018	224,088	222,242
Dept State Lands			
Reclamation Division**	624,507	585,075	584,852
Central Management			
Env Quality Council	19,411	13,225	13,226
Grants	<u>2,842,758</u>		
Total Disbursements	<u>\$5,109,977</u>	<u>\$2,294,763</u>	<u>\$2,279,250</u>
Ending Balance	\$ 575,061	\$2,012,375	\$3,724,325

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

The following table lists the budget

modifications included in the Executive Budget.

Executive Budget Modifications 1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) MPEA/EIS Programmatic				\$ 100,000	\$ 100,000
2) Missouri Basin Reservation	3.0	3.0		547,433	547,433
3) Poplar River Monitoring				66,620	66,620
4) Energy Conservation				441,500	441,500
5) State Owned Water Projects*				800,000	800,000
6) Middle Creek Dam*				3,896,925	3,896,925
7) North Fork Smith River*				1,600,000	1,600,000
8) Tongue River Dam*				<u>2,000,000</u>	<u>2,000,000</u>
Total	3.0	3.0		\$9,452,058	\$9,452,058

*In the Executive Budget, these modifications have been moved to Department of State Lands budget as part of the proposed reorganization.

CENTRALIZED SERVICES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	39.00	39.00	39.00	39.00	.00
Personal Services	1,098,745	1,235,505	1,245,333	1,243,263	6.61%
Operating Expenses	391,361	393,506	414,875	420,103	6.38%
Equipment	16,775	5,214	4,904	4,949	-55.19%
Debt Service	10,645	10,417	10,645	10,713	1.41%
Total Program	\$1,517,526	\$1,644,642	\$1,675,757	\$1,679,028	6.09%
<u>Fund Sources</u>					
General Fund	1,091,199	1,225,428	1,209,138	1,227,750	5.19%
State Revenue Fund	398,326	400,214	466,619	451,278	14.95%
Federal Revenue Fund	28,001	19,000	0	0	-100.00%
Total Funds	\$1,517,526	\$1,644,642	\$1,675,757	\$1,679,028	6.09%

Program Description

Centralized Services Division provides managerial and administrative support services essential to the effective operation of the department. The program has three components: 1) the Director's Office, which has responsibility for overall management and major decisions and recommendations within the jurisdiction of the department, includes the deputy director, legal, public information, and personnel support functions; 2) the Centralized Services program, which manages all financial activities, coordinates information systems, produces and coordinates publications and graphic materials, and performs general administrative support services; and 3) the Board of Natural Resources and Conservation (BNRC), which has statutorily assigned quasi-judicial functions, adopts department administrative rules if board approval is required. The BNRC is also responsible for approving reservations of water under the Montana Water Use Act, the siting of energy developments covered by the Major Facility Siting Act, and floodplain delineations under the Montana Floodplain and Floodway Management Act. The BNRC, whose seven members are appointed by the Governor, also acts in an advisory capacity to the department in all other matters.

The Centralized Services Division also houses the department's Digital Equipment Corporation (DEC) computer system, which is used for: 1) DNRC word processing and applications that do not require the mainframe; and 2) transmittal of all necessary DNRC data to the mainframe. This system was purchased in 1989 on a lease/purchase agreement. The final payment will be made in fiscal 1993. Centralized Services charges all agency programs for a portion of the lease/purchase debt service based upon the total number of pieces of equipment each department has accessing the system.

Current Level Budget

Current level personal services increase 6.6 percent due to continuation of the fiscal 1991 pay plan in the 1993 biennium and because this program experienced significant vacancy savings in fiscal 1990. Operating expenses increase because: 1) audit costs total \$19,652 per year in the 1993 biennium, compared to a 1991 biennium total of \$35,973 (of which \$12,147 was spent in fiscal 1990); and 2) Department of Administration rent increases \$17,393 to \$248,080 per year in the 1993 biennium. Equipment, which reflects the agency request, includes replacement office equipment. Debt service is the program's share of the DEC system.

CENTRALIZED SERVICES DIVISION

The centralized services function is funded with general fund and assessments against state special revenue funds. Assessments ranging from 6 to 15 percent are levied against all special revenue accounts used to fund agency activities.

The balance remaining after these assessments are made is funded with the general fund. The following table shows the assessments and general fund that comprise the total Centralized Services program current level funding.

Table 4
Centralized Services Program Funding

Fund Source	Percentage		Fiscal 1992	Fiscal 1993
	1992	1993		
Rangeland Improvement Loans	6	6	\$ 10,500	\$ 10,500
Major Facility Siting*	15	9	32,685	19,611
Water Rights	6	6	4,800	4,800
Grazing Fees**	N/A	N/A	500	500
Conservation District Grants	6	6	5,165	5,165
Alternative Energy	11	11	17,364	17,326
Oil & Gas**	N/A	N/A	70,000	70,000
Renewable Resources***	6	6	7,549	7,511
Water Development	11	11	143,760	143,084
Reclamation & Development	11	11	168,119	166,603
GF Centralized Services	N/A	N/A	<u>1,195,130</u>	<u>1,213,736</u>
TOTAL****			\$1,655,572	\$1,658,836

* Assessment made on \$217,902 per year (four-year average of actual expenditures)

** Negotiated flat fee

*** Assessment on administration only, not on contract with Soil Conservation Service

**** Does not include BNRC's budget (discussed below) which is included in this division.

Federal funds in fiscal 1990 consisted of assessments against oil overcharge funds. As these funds were spent, the department levied an indirect assessment to help fund the Centralized Services Division. Due to uncertainty over the level of funds available, no oil overcharge assessments are included in the division's current level budget in the 1993 biennium. The legislature may wish to specify that as oil overcharge funds are spent, indirect assessments will be collected and general fund reduced by a like amount. The Executive

Budget requests a language appropriation to transfer these indirect assessments to the general fund. Indirects assessed against other federal funding sources are currently deposited into the general fund, in accordance with legislation enacted during the 1989 session.

BNRC's current level budget, which totals \$20,185 in fiscal 1992 and \$20,192 in fiscal 1993, is funded with general fund and state special revenue from various agency accounts.

OIL & GAS CONSERVATION DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	26.00	26.00	22.00	22.00	-4.00
Personal Services	521,210	732,407	622,477	621,319	-.75%
Operating Expenses	205,997	358,114	221,971	208,260	-23.73%
Equipment	40,431	49,975	31,150	15,625	-48.26%
Debt Service	1,127	1,227	980	980	-16.74%
Total Program	\$768,765	\$1,141,723	\$876,578	\$846,184	-9.83%
<u>Fund Sources</u>					
State Revenue Fund	768,765	1,141,723	876,578	846,184	-9.83%
Total Funds	\$768,765	\$1,141,723	\$876,578	\$846,184	-9.83%

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. To meet this goal, the division: 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) does engineering studies; and 7) collects and maintains complete well data and production information.

Current Level Budget

This division's current level budget decreases 9.8 percent primarily due to the elimination of funds for the Underground Injection Control (UIC) program. The UIC program was appropriated \$282,903 in fiscal 1990 and \$277,810 in fiscal 1991 from state special revenue funds for 4.0 FTE and related operating expenses. The 1989 legislature also appropriated the UIC program \$110,000 per year of federal revenue authority, contingent upon receipt of these funds from the Environmental Protection Agency (EPA). As of November 15, 1990, no FTE had been hired and no expenses incurred because the state has not been granted primacy or federal funding for this program by

the EPA. Since the division is unsure when primacy will be granted, no funds or FTE for this program are included in the current level budget.

The personal services reduction achieved by elimination of the 4.0 UIC FTE is partially offset by increases due to vacancy savings realized in fiscal 1990 and continuation of the 1991 pay plan into the 1993 biennium. While the 1993 biennium operating expenses are less than the fiscal 1991 appropriation due to the elimination of the UIC program, they are higher than fiscal 1990 actual expenditures because:

1) a \$9,962 court judgment the Board has been ordered to pay is included in 1992 current level; and

2) an increase of \$3,500 each year in repair and maintenance has been added due to increased field vehicle use associated with implementation of the Oil and Gas Programmatic EIS.

Equipment includes one replacement vehicle each year and various office, engineering, and field equipment. Debt service, which reflects this division's share of the DEC system, decreases because of reallocation of these expenses among programs.

The oil and gas conservation account funds this division. Revenue for this account is derived from drilling permits, a conservation tax on oil and gas production, interest earnings, and

OIL & GAS CONSERVATION DIVISION

miscellaneous fees for photocopy and other services. The department deposited \$946,502 from these sources in the account in fiscal 1990.

The 1989 legislature created the oil and gas production damage mitigation account for use in reclamation of resources disturbed by oil and gas exploration and production activities. Bond forfeitures, fees, and up to \$80,000 per biennium of RIT interest is deposited into the account. The division expended \$5,480 from the account in fiscal 1990 and anticipates expending \$200,000 in the 1993 biennium due to an expected increase in activity. Because this account is statutorily appropriated, no funds are included in current level.

Executive Budget Modification

Oil & Gas EIS/NEPA Compliance Program

The Oil and Gas Conservation Division is responsible for issuing oil and gas drilling permits. The 1989 legislature required that the Board of Oil and Gas Conservation adopt an environmental impact statement (EIS) addressing the process the division uses to issue permits, or a "programmatic" EIS. The requirement was made to ensure proper environmental review is completed on all permit requests in compliance with the procedures of the Montana Environmental Policy Act. The "programmatic" was completed and adopted by the board in December 1989. The Executive Budget includes \$50,000 per year from the oil and gas special revenue account to implement the "programmatic", including establishment and maintenance of an environmental review resource library and rule revisions.

CONSERVATION & RESOURCE DEVELOPMENT DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	20.00	7.20	20.00	20.00	12.80
Personal Services	493,675	214,947	590,878	590,299	66.69%
Operating Expenses	247,576	163,781	227,869	228,027	10.83%
Equipment	22,154	12,161	20,083	3,981	-29.87%
Local Assistance	91,300	95,000	91,300	91,300	-1.99%
Grants	199,814	186,089	186,089	186,089	-3.56%
Debt Service	2,060	720	2,364	2,364	69.46%
Total Program	\$1,056,579	\$672,708	\$1,118,583	\$1,102,060	28.41%
<u>Fund Sources</u>					
General Fund	52,084	75,184	78,562	74,707	20.43%
State Revenue Fund	986,568	553,851	1,014,872	1,002,242	30.95%
Federal Revenue Fund	17,927	43,673	25,149	25,111	-18.41%
Total Funds	\$1,056,579	\$672,708	\$1,118,583	\$1,102,060	28.41%

Program Description

The Conservation and Resource Development Division is made up of the Conservation Districts Bureau and the Resource Development Bureau.

The Conservation Districts Bureau coordinates, supervises, and provides financial and technical assistance to Montana's 59 conservation districts. It serves as coordination and liaison between conservation districts and federal, state, and local governments. The bureau is also responsible for statewide coordination of rangeland management and administration of the state's 30 grazing districts. The Resource Development Bureau provides technical, financial, and administrative assistance to public and private entities to complete projects that put renewable resources to work, increase the efficiency with which natural resources are used, or solve recognized environmental problems. In fulfilling these duties, the bureau administers four loan and grant programs.

Current Level Budget

This division's current level increases 28.4 percent due to a reorganization. In fiscal 1990, the Water Development Bureau, including 12.8 FTE, was transferred from the Water Resources Division to this division. The reorganization is reflected in fiscal 1990 expenditures but not in the fiscal 1991 appropriation or FTE. Personal services increase due to the reorganization, vacancy savings realized in fiscal 1990, and continuation of the fiscal 1991 pay plan increases in the 1993 biennium. Operating expenses increase by 10.8 percent due to the reorganization. Equipment includes one replacement vehicle for field offices and miscellaneous office and computer equipment.

Local assistance is provided to conservation districts to supplement local funding sources when mill levy revenue is inadequate to support district operations. The total represents the agency request, funded from RIT reclamation and development funds.

The following table details grant amounts included in the current level budget.

CONSERVATION & RESOURCE DEVELOPMENT DIVISION

Table 5
Conservation & Resource Development
Division Grants
1993 Biennium

<u>Grant Source</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Saline Seep	\$100,000	\$100,000
Conservation Dists.	<u>86,089</u>	<u>86,089</u>
TOTAL	\$186,089	\$186,089

Saline Seep grants are pass-through funds to the Montana Salinity Control Association (MSCA) to represent and provide technical assistance in saline seep reclamation, prevention, and education programs to 33 conservation districts. Saline seep grants are funded with RIT reclamation and development funds. Conservation

district grants, which are made to local conservation districts for projects and activities, are funded with 0.19 percent of the coal severance tax.

Debt service, which funds this division's share of DEC computer costs, increases because of the transfer of the Water Development Bureau to this division.

The Conservation and Resource Development Division is funded with: 1) state special revenues, which include rangeland improvement loan administration fees, grazing district fees, conservation district coal severance tax income, and RIT interest through the renewable resource development account (RRD), reclamation and development account (R and D), and water development account; 2) federal funds which include a grant for Rural Economic Development and rent income from the Army Corps of Engineers; and 3) general fund. The following tables detail funding for this division.

CONSERVATION & RESOURCE DEVELOPMENT DIVISION

Table 6
Conservation and Resource Development Division Funding
1993 Biennium

----- Fiscal 1992 -----				
	<u>Conservation Districts</u>	<u>Rural Economic Development</u>	<u>Conservation and Resource Development</u>	<u>Total</u>
General Fund	\$ 78,562			\$ 78,562
<u>State Spec. Revenue</u>				
Range Imp.	3,000			3,000
Grazing Dist.	6,150			6,150
Cons. Dist.	86,089			86,089
Water Dev.			\$211,040	211,040
RRD	65,600		125,812	191,412
R & D	417,249	\$30,938	68,994	517,181
<u>Federal Revenue</u>				
Cons. Dist.	4,523			4,523
Res. Dev.		20,626		20,626
Total	<u>\$661,173</u>	<u>\$51,564</u>	<u>\$405,846</u>	<u>\$1,118,583</u>
----- Fiscal 1993 -----				
	<u>Conservation Districts</u>	<u>Rural Economic Development</u>	<u>Conservation and Resource Development</u>	<u>Total</u>
General Fund	\$ 74,707			\$ 74,707
<u>State Special Revenue</u>				
Range Imp.	3,000			3,000
Grazing Dist.	6,118			6,118
Cons. Dist.	86,089			86,089
Water Dev.			\$209,977	209,977
RRD	65,600		125,179	190,779
R & D	406,711	\$30,922	68,646	506,279
<u>Federal Revenue</u>				
Cons. Dist.	4,497			4,497
Res. Dev.		20,614		20,614
Total	<u>\$646,722</u>	<u>\$51,536</u>	<u>\$403,802</u>	<u>\$1,102,060</u>

WATER RESOURCES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	120.20	137.00	120.20	120.20	-16.80
Personal Services	3,250,639	3,945,659	3,556,123	3,551,068	-1.24%
Operating Expenses	1,134,286	1,131,039	1,029,906	1,022,679	-9.39%
Equipment	123,707	85,960	64,984	60,984	-39.92%
Capital Outlay	4,500	0	0	0	-100.00%
Transfers	2,100,823	32,000	0	0	-100.00%
Debt Service	12,483	14,590	12,926	12,926	-4.51%
Total Program	\$6,626,438	\$5,209,248	\$4,663,939	\$4,647,657	-21.33%
<u>Fund Sources</u>					
General Fund	2,263,903	2,552,845	2,407,000	2,396,865	-.27%
State Revenue Fund	4,281,603	2,604,111	2,217,034	2,210,887	-35.70%
Federal Revenue Fund	80,932	52,292	39,905	39,905	-40.09%
Total Funds	\$6,626,438	\$5,209,248	\$4,663,939	\$4,647,657	-21.33%

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. The division also develops and recommends water policy to the director, Governor, and legislature. The division consists of an administration unit with an attached dam safety compliance staff and three separate bureaus: Water Management Bureau, Water Rights Bureau, and Engineering Bureau.

reductions are offset by vacancy savings realized in fiscal 1990 and continuation of the 1991 pay plan increase in the 1993 biennium.

The Engineering Bureau includes 20.0 FTE of which eleven are engineers. In fiscal 1990, four engineer positions were vacant most of the year due to recruitment and retention difficulties. As of November 1990, two positions were still vacant. Because these engineers are necessary to ensure that state water projects are adequately maintained, the LFA current level budget includes funding for all positions.

Current Level Budget

The Water Resources Division had a 16.8 FTE reduction from the previous biennium because: 1) 12.8 FTE in the Water Development Bureau were moved to the Conservation and Resource Development Division in an agency reorganization; 2) 3.0 FTE included in the previous biennium for the Missouri River Reservation are included in an Executive Budget modification in the 1993 biennium; and 3) 1.0 FTE in the New Water Rights Bureau was deleted by the agency in the 1993 biennium budget request.

The division's personal services budget decreases by 1.2 percent because the FTE

Operating expenses decrease 9.4 percent because various contracts expended in fiscal 1990 and appropriated in fiscal 1991 were not requested by the agency due to: 1) completion of the Broadwater Dam project; 2) inclusion of the Missouri River Basin in an Executive Budget modification in the 1993 biennium; and 3) elimination of contracted services expended in fiscal 1990 because of staff vacancies.

Equipment includes six replacement vehicles and various office, field monitoring, and computer equipment. Capital outlay expenditures in fiscal 1990 for the Middle Creek feasibility study are not continued since the study has been completed. Transfers in fiscal

WATER RESOURCES DIVISION

1990, which were used to move Broadwater Dam bond sale proceeds from a bond proceeds account into a debt service account, will not continue in the 1993 biennium. Debt service includes payment for phone system leases and this division's share of the department's DEC computer system.

The Water Resources Division is funded with a mixture of general fund, state special revenue, and federal funds.

Federal funds decline because funds for Missouri River Reservation activities are requested as a budget modification in the 1993 biennium. State special revenues decrease because Broadwater Dam bond proceeds were transferred from a state special revenue into a debt service account in fiscal 1990 and will not recur in the 1993 biennium. The following table shows funding in this division by program.

Table 7
Water Resources Division Funding
1993 Biennium

----- Fiscal 1992 -----								
	General Fund	Broadwtr O & M (State)	Water Rights Approp (State)	Water Devlpmt (State)	Reclamation and Developmnt (State)	Water Well Contract (State)	State Assistance (FMHA) (Federal)	Total
Administration	\$ 17,843			\$ 84,755	\$120,442			\$ 223,040
New Water Rights	1,430,287		\$60,000		99,000			1,589,287
Water Rights Adj	777,288		20,000		54,926			852,214
Engineering		\$223,448		780,523			\$39,905	1,043,876
Water Management	181,582			226,596	354,771			762,949
Water Well Cont						\$36,555		36,555
Dam Safety					156,018			156,018
Total	<u>\$2,407,000</u>	<u>\$223,448</u>	<u>\$80,000</u>	<u>\$1,091,874</u>	<u>\$785,157</u>	<u>\$36,555</u>	<u>\$39,905</u>	<u>\$4,663,939</u>
----- Fiscal 1993 -----								
	General Fund	Broadwtr O & M (State)	Water Rights Approp (State)	Water Devlpmt (State)	Reclamation and Developmnt (State)	Water Well Contract (State)	State Assistance (FMHA) (Federal)	Total
Administration	\$ 17,814			\$ 84,616	\$120,245			\$ 222,675
New Water Rights	1,425,426		\$60,000		99,000			1,584,426
Water Rights Adj	772,161		20,000		54,564			846,725
Engineering		\$223,448		775,723			\$39,905	1,039,076
Water Management	181,464			226,449	354,541			762,454
Water Well Cont						\$36,521		36,521
Dam Safety					155,780			155,780
Total	<u>\$2,396,845</u>	<u>\$223,448</u>	<u>\$80,000</u>	<u>\$1,066,788</u>	<u>\$784,130</u>	<u>\$36,521</u>	<u>\$39,905</u>	<u>\$4,647,657</u>

Executive Budget Modifications

Missouri Basin Reservation

This modification is proposed to continue implementation of a 1985 legislative mandate to: 1) complete comprehensive water reservation proceedings in the Missouri River basin

for the reservations of flows upstream of Fort Peck Dam by mid-fiscal 1992; 2) begin decision-making on water reservation applications in the remaining portion of the basin, which is to be completed by mid-fiscal 1994; 3) prepare the environmental impact statement on reservation applications in the lower Missouri and Little Missouri River basins; and 4) assist the Board of

WATER RESOURCES DIVISION

Natural Resources in conducting contested case hearings concerning water reservation requests.

The Executive Budget includes appropriation authority of \$547,433, which includes \$166,826 from the Department of Fish, Wildlife, and Parks' miscellaneous state special revenue account and \$380,607 from water development state special revenue funds. This modification, which would add 3.0 FTE and \$461,686 in fiscal 1992 and \$85,747 in fiscal 1993, would continue funding for this project based on estimated actual costs during the current biennium. The 1991 biennium appropriation for this project was \$545,562 and actual expenditures are anticipated to total \$524,667.

Rehabilitation Water Projects

DNRC is responsible for 23 state-owned water storage projects that were constructed in the 1930's and 1940's. Used primarily for irrigation with ancillary recreational and flood-control benefits, several projects need repair and rehabilitation in order to eliminate potential hazards to downstream property and residents and lessen the state's liability exposure. The following projects are in need of repair and rehabilitation:

1) Rehabilitation Projects Using Water Development Funds

This modification adds a biennial appropriation of \$800,000 to complete feasibility studies, develop plans and specifications, oversee construction, and perform miscellaneous repairs on four state-owned water storage facilities. This modification, which would be funded from the water development special revenue fund (thus reducing the money available for other grants), would provide approximately the same funding level as has been appropriated in previous biennia for rehabilitation work.

The agency is requesting authority to vary funding amounts among the four projects described below and to include other priority projects as necessary.

a) Tongue River Dam: During the 1993 biennium, DNRC, in cooperation with several state and federal agencies, would develop a feasibility study on the rehabilitation of the Tongue River Dam. This project would require \$300,000 of state funds to match federal funds.

b) Middle Creek Dam: DNRC has completed rehabilitation planning for the Middle Creek Dam and has acquired federal funding to begin rehabilitation and expansion construction. State funding of \$300,000 is requested to oversee construction and conduct field inspections.

c) North Fork Smith River Dam: DNRC would conduct a feasibility study for an expected cost of \$100,000.

d) Miscellaneous Emergencies and Repairs: DNRC estimates \$100,000 will be necessary for unforeseen repair requirements on state water projects.

2) Rehabilitation Water Projects Using Funding From a Variety of Sources

The following requests for rehabilitation activities on state-owned projects would be funded through a variety of sources including federal grants, federal loans, state funds, and state bond proceeds.

a) Smith River: This modification adds authority to spend \$1,600,000 in federal funds during the next biennium to rehabilitate the water project on the North Fork of the Smith River, where seepage due to an undersized spillway has caused stability concerns. The federal funds will be in the form of a loan, which will be repaid by the water users. Although the water users have agreed to this arrangement, no formal agreements have yet been signed with the users or the federal government.

b) Middle Creek Dam: This modification adds authority to spend \$3,896,925 in federal funds

WATER RESOURCES DIVISION

during the next biennium to bring the Middle Creek Dam up to present dam safety standards and provide additional storage capacity. Funding for this project will be derived from a U.S. Bureau of Reclamation loan for \$3,121,925 and a federal grant for the remaining \$775,000. The loan will be repaid by the City of Bozeman and the water users. A formal agreement among the water users, the City of Bozeman, and the state is currently in the final negotiation stage.

c) Tongue River Dam: This modification proposes spending \$2,000,000 over the next biennium to complete final design specifications for the Tongue River Dam once the feasibility study is completed. Under the National Dam Safety Program, the U.S. Army Corps of Engineers has classified the Tongue River Dam as an unsafe high-hazard structure. Funding for this project will consist of \$1,600,000 from a U.S. Bureau of Reclamation grant and \$400,000 in state bond proceeds backed by the coal severance tax trust fund.

In the Executive Budget, the budget modifications for rehabilitating water projects are included in the Department of State Lands as part of the proposed reorganization.

Poplar River Monitoring

This modification adds \$33,050 in fiscal 1992 and \$33,570 in fiscal 1993 from the water development special revenue account to monitor water quality, quantity, and groundwater on the Poplar River at the international boundary between Montana and Saskatchewan in accordance with a bi-national monitoring committee request. Of this request, \$18,000 per year will be granted to the Bureau of Mines for groundwater studies. The remaining funds will be used to contract with the United States Geological Survey (USGS) for 50 percent of the cost of collecting water quality measurements. The USGS will be responsible for collecting the water quantity measurements. The cost of this program is currently being funded through existing programs. The Department of Health and Environmental Sciences is providing funding for the program in fiscal 1991 and DNRC contributed \$3,450 in fiscal 1990.

RESERVED WATER RIGHTS COMPACT COMMISSION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	11.00	13.00	11.00	11.00	-2.00
Personal Services	222,320	363,717	320,124	319,506	9.14%
Operating Expenses	45,877	59,962	45,267	44,848	-14.86%
Equipment	23,627	15,460	6,710	4,671	-70.88%
Debt Service	1,379	20,995	1,379	1,379	-87.67%
Total Program	\$293,203	\$460,134	\$373,480	\$370,404	-1.26%
<u>Fund Sources</u>					
General Fund	112,818	179,116	149,392	148,162	1.93%
State Revenue Fund	180,385	281,018	224,088	222,242	-3.27%
Total Funds	\$293,203	\$460,134	\$373,480	\$370,404	-1.26%

Program Description

The Reserved Water Rights Compact Commission, which was created by the legislature in 1979 as part of the water rights adjudication effort, is provided for in Section 2-15-212, MCA. The purpose of the commission is to negotiate water rights with Indian tribes and federal agencies, with the intent to establish a formal agreement (compact) on the amount of water to be allocated to each interest. To date, the commission has concluded one compact with the Fort Peck tribe in 1985. The commission is statutorily attached to the Governor's office but is served by a staff attached to DNRC. Three programs are administered by the commission staff: 1) Information Services; 2) Commission Negotiations; and 3) Administrative Support.

significant vacancy savings in fiscal 1990. The current level budget includes full funding for all authorized positions except 2.0 FTE: 1) 1.0 FTE deleted at the agency request; and 2) 1.0 FTE deleted from current level due to extended vacancy. Full funding for the remaining positions and the continuation of the fiscal 1991 pay plan in the 1993 biennium causes the 9.1 percent increase in personal services.

Operating expenses are continued at the fiscal 1990 level. The fiscal 1991 appropriation includes \$18,000 for contracted services with outside professionals to assist in final negotiations with tribes. Since no funds were expended for this purpose in fiscal 1990, this budget item is not included in the LFA current level for the 1993 biennium. Equipment includes the agency's request for office and computer equipment.

Current Level Budget

This program budget decreases 1.3 percent in the 1993 biennium due to a reduction in FTE and decreases in equipment and debt service budgets. The 1989 legislature approved the addition of 7.0 FTE (5.0 FTE to be added in fiscal 1990 and 2.0 FTE in fiscal 1991) to conduct the technical work necessary to support negotiations with an additional tribe. Due to delays in hiring this new staff and to staff turnover, the agency experienced

Debt service is maintained at the fiscal 1990 level. The 1989 legislature appropriated \$20,000 per year to the commission to lease/purchase a computer system. Due to changes in technology, the commission did not purchase the system. The agency is requesting funds to purchase the system in the 1993 biennium. This significant equipment request is not included in the LFA current level. The 1993 biennium debt service includes the commission's share of the department's DEC system.

RESERVED WATER RIGHTS COMPACT COMMISSION

The Reserved Water Rights Compact Commission is funded 40 percent by general fund and 60 percent from the RIT

reclamation and development state special revenue fund.

ENERGY DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
ITE	40.00	40.00	38.00	39.00	-2.00
Personal Services	1,064,797	1,199,481	1,134,049	1,133,440	.14%
Operating Expenses	443,224	1,330,832	1,499,822	1,500,640	69.13%
Equipment	38,883	12,704	10,469	11,854	-56.73%
Capital Outlay	443,741	0	0	0	-100.00%
Grants	154,555	255,000	255,000	255,000	24.53%
Debt Service	6,105	5,938	5,096	5,096	-15.37%
Total Program	\$2,151,305	\$2,803,955	\$2,904,436	\$2,906,030	17.26%
<u>Fund Sources</u>					
General Fund	413,515	513,572	495,956	498,089	7.22%
State Revenue Fund	920,032	1,184,665	1,380,380	1,379,995	31.15%
Federal Revenue Fund	817,758	1,105,718	1,028,100	1,027,946	6.89%
Total Funds	\$2,151,305	\$2,803,955	\$2,904,436	\$2,906,030	17.26%

Program Description

The Energy Division consists of three bureaus: 1) the Facility Siting Bureau, which designs and conducts environmental impact and monitoring studies and performs analyses of energy projects under either the Major Facility Siting Act (MFSA) or the Montana Environmental Policy Act (MEPA). The bureau also conducts impact assessment and research studies when its environmental expertise is requested by the ENRC, other bureaus, divisions, or state or federal agencies; 2) the Planning and Analysis Bureau, which identifies and evaluates energy issues that could significantly affect Montana and formulates recommendations for Montana officials. The bureau also represents the state on various technical and policy groups; and 3) the Conservation and Renewable Energy Bureau, which works to encourage energy conservation and reduce the state's dependence on fossil fuels through the promotion of competitively priced renewable resources.

Current Level Budget

This division's current level budget increases 17.3 percent due primarily to major facility siting and Rock Creek mitigation activities.

The 1989 legislature appropriated \$1,005,300 spending authority each year for major facility siting analysis and reviews as required by either the Major Facility Siting Act (MFSA) or the Montana Environmental Protection Act (MEPA). Major Facility (MFS) has two components:

1) the "core" program which is primarily funded with general fund, but includes some major facility siting funds for 0.8 FTE. This core program performs ongoing pre-application duties; and

2) the environmental analysis and review program, which is funded with filing fees collected from permit or certification applicants. The 1989 legislature also appropriated \$1,650,000 for the biennium to lessen the impact to Rock Creek from the Bonneville Power Administration (BPA) powerline through the area. The Rock Creek mitigation account, an expendable trust fund, was created through a settlement between the state and BPA.

Because the total amount needed to accomplish major facility siting analyses and Rock Creek mitigation activities is not known in advance, the legislature has historically appropriated a lump sum in contracted services to cover all potential costs,

ENERGY DIVISION

with the understanding that some of it will be used for personal services.

Major Facility Siting expenditures in fiscal 1990 totaled \$268,228 and included \$176,374 in personal services, \$91,568 in operating expenses, and \$268 in equipment. LFA current level for the 1993 biennium includes the agency request of \$996,335 per year in contracted services for MFSA or MEPA required environmental analyses. Current level also includes MFS funds for 0.8 FTE in the core program, totalling \$26,186 in fiscal 1992 and \$26,148 in fiscal 1993.

Rock Creek Mitigation activities totaled \$486,101 in fiscal 1990, including \$5,080 in personal services, \$13,013 in operating expenses, \$10,769 in equipment, \$443,741 in capital outlay, and \$13,500 in grants. Current level includes \$200,000 per year in contracted services for this project. Although this is how these funds have been appropriated in the past, the legislature may wish to include language in the appropriation bill stating that the agency may expend the appropriation in other expenditure categories as needed. The Executive Budget also includes \$200,000 per year for these activities but recommends a language appropriation to allow the Rock Creek Advisory Council additional spending authority up to \$1,100,000 during the biennium if necessary.

FTE decrease due to the elimination of 2.0 FTE from the Conservation Bureau (a word processing operator and an energy education specialist) due to extended vacancies. The personal services budget remains constant, however, because of vacancy savings realized in fiscal 1990 and continuation of the fiscal 1991 pay plan increase into the 1993 biennium.

Operating expenses increase 69.1 percent due to the addition of major facility siting and Rock Creek mitigation expenses. Equipment includes computer and office equipment, as well as the division's share of DEC computer costs. Capital outlay in fiscal 1990 was used to purchase land for Rock Creek mitigation activities. The following

table shows grant funds included in the LFA current level for the 1993 biennium.

Table 8
Energy Division Grants
1993 Biennium

	1992	1993
Institutional Cons.		
Program	\$200,000	\$200,000
Bioenergy Program	25,000	25,000
Residential Const.		
Demo	30,000	30,000
TOTAL	\$255,000	\$255,000

The Institutional Conservation program (ICP) requires a 50 percent match, while the Bioenergy program requires a 33 percent match. Grantees provide match for the funds they receive, and the state provides match for the administrative funds they receive. The ICP grants funds to schools, hospitals, and local governments to retrofit existing buildings for energy conservation. Bioenergy program grants are made to commercial, industrial, and public sector groups to promote the use of biomass energy. Residential construction and demonstration grants are federally funded and require no state match. They are used to fund energy-efficient, electrically-heated home construction in the BPA service area.

Debt service decreases by 15.4 percent because some of the division's DEC costs are included in the equipment category. Debt service includes the remaining division DEC costs in the 1993 biennium.

The Energy Division is funded with a mixture of general fund, state special revenue, and federal funds from the Department of Energy, Bonneville Power Administration, and oil overcharge funds. The following table shows the funding breakdown for this division.

ENERGY DIVISION

Table 9
Energy Division Funding

----- Fiscal 1992 -----

<u>Fund Source</u>	<u>Admin.</u>	<u>Planning/ Analysis</u>	<u>Major Facility Siting</u>	<u>Conservation</u>	<u>Total</u>
General Fund	\$127,777	\$209,002	\$ 159,177		\$ 495,956
State Special					0
Rock Creek			200,000		200,000
Major Facility		16,799	1,005,722		1,022,521
Alt Energy				\$157,859	157,859
Federal Funds					0
Energy	15,000			561,843	576,843
Oil Overcharge		30,095		421,162	451,257
TOTAL	<u>\$142,777</u>	<u>\$255,896</u>	<u>\$1,364,899</u>	<u>\$1,140,864</u>	<u>\$2,904,436</u>

----- Fiscal 1993 -----

<u>Fund Source</u>	<u>Admin.</u>	<u>Planning/ Analysis</u>	<u>Major Facility Siting</u>	<u>Conservation</u>	<u>Total</u>
General Fund	\$127,807	\$210,657	\$ 159,625		\$ 498,089
State Special					0
Rock Creek			200,000		200,000
Major Facility		16,761	1,005,722		1,022,483
Alt Energy				\$157,512	157,512
Federal Funds					0
Energy	15,000			593,707	608,707
Oil Overcharge		30,027		389,212	419,239
TOTAL	<u>\$142,807</u>	<u>\$257,445</u>	<u>\$1,365,347</u>	<u>\$1,140,431</u>	<u>\$2,906,030</u>

Because the level of additional oil overcharge funds that may be received in the 1993 biennium is not known, none are included in the LFA current level. The oil overcharge funds included in the table are the unspent balance of prior oil overcharge allocations.

The alternative energy development funds are used as match for administrative expenses of the ICP and Bioenergy program. The alternative energy account used to receive coal severance tax revenue, but that allocation was eliminated by House Bill 526 in the last session. The remaining revenue to this account is interest and loan paybacks.

Executive Budget Modification

Energy Conservation

The Executive Budget includes \$107,000 in fiscal 1992 and \$334,500 in fiscal 1993 of federal funds to implement federal energy efficiency programs through the State Energy Conservation program. The department will also offer technical assistance to consumer groups to increase energy efficiency in Montana's commercial, industrial, and public sectors. This will be done through the Biomass Utilization and Co-generation program.

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 BY PRIOR LEGISLATURES 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 PLANNING AND ANALYSIS BUREAU AND THE ADMINISTRATIVE SECTION COMES FROM GENERAL FUNDS. THE FACILITY SITING BUREAU USES GENERAL FUNDS TO ADMINISTER MFSA AND USES FILING FEES TO PREPARE EIS'S. THE CURRENT LEVEL BUDGET REQUEST FOR THE FACILITY SITING BUREAU CONTAINS NO FTE'S FOR THE PREPARATION OF EIS'S. THE PERSONNEL NEEDED TO PREPARE EIS'S ARE INCORPORATED IN THE BUDGET UNDER CONTRACTUAL SERVICES FUNDED BY THE BLOCK MFSA/MEPA APPROPRIATION.

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 APPROPRIATED BY PRIOR

EXHIBIT 2
DATE 1-29-91
HE Max. Per. Sub

LEGISLATURES AND INCORPORATED INTO ONE OF THE ELIGIBLE
FEDERAL ENERGY PROGRAMS DNRC ADMINISTERS.

THE FACILITY SITING BUREAU SERVES TWO PRIMARY
PURPOSES:

1. FIRST, IT ADMINISTERS THE MONTANA MAJOR FACILITY
SITING ACT.
2. SECOND, IT PREPARES ENVIRONMENTAL IMPACT
STATEMENTS.

AS I SAID EARLIER, THE FACILITY SITING BUREAU USES
GENERAL FUNDS 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.

- PROVIDING PRE-APPLICATION CONSULTATION TO PROSPECTIVE APPLICANTS TO CLARIFY APPLICATION REQUIREMENTS AND REGULATORY PROCEDURES. FOR EXAMPLE, THIS BIENNIUM, WE HAVE WORKED EXTENSIVELY WITH THE MONTANA POWER COMPANY TO BE CERTAIN THAT KEY ENVIRONMENTAL ISSUES ARE ADDRESSED IN THEIR APPLICATION TO RELICENSE ALL S OF THEIR DAMS ON THE MISSOURI-MADISON SYSTEM.
- PROCESSING EXCLUSIONS FOR FACILITIES THAT WOULD OTHERWISE BE COVERED BY THE MFSA. THIS BIENNIUM, WE'VE WORKED WITH MONTANA POWER COMPANY AND VIGILANTE ELECTRIC COOP ON EXCLUSIONS FOR FOUR TRANSMISSION LINE PROJECTS.
- MONITORING COMPLIANCE WITH PROVISIONS OF CERTIFICATES ISSUED BY THE BOARD. AS AN EXAMPLE, LAST YEAR DNRC INSPECTED MONTANA POWER COMPANY'S COLSTRIP EFFLUENT HOLDING PONDS COMPLEX AND THE EMIGRANT-GARDINER AND JUDITH GAP-GLENGARRY TRANSMISSION LINES AND WORKED WITH THE UTILITY TO RESOLVE MINOR RECLAMATION PROBLEMS THAT WERE IDENTIFIED.
- 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

2
DATE 1-29-91
HB Mr. Rep. Nov

- PLANNING, TO FACILITATE JOINT PROJECT REVIEWS
AND STANDARD SETTING, AND TO REDUCE DUPLICATION
AND SAVE BOTH 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 ENVIRONMENTAL ASSESSMENT STAFF
WITHIN THE FACILITY SITING BUREAU IS TOTALLY DEPENDENT
ON AN UNINTERRUPTED FLOW OF PROJECT FUNDS.

DURING THIS BIENNIUM, THE ENVIRONMENTAL ASSESSMENT
STAFF WITHIN THE FACILITY SITING BUREAU HAS PREPARED
AND PUBLISHED, INDEPENDENTLY OR JOINTLY WITH OTHER
AGENCIES, FOUR ENVIRONMENTAL IMPACT STATEMENT
DOCUMENTS. WE ARE CURRENTLY WORKING ON THREE OTHERS.

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

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

THIS BUREAU IS RESPONSIBLE FOR MONITORING PETROLEUM 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 ENERGY EMERGENCY FUNCTIONS OF THE BUREAU HAVE BEEN A MAJOR AREA OF ACTIVITY SINCE IRAQ INVADED KUWAIT THIS SUMMER. EVEN BEFORE THE INVASION, WE WERE MONITORING PETROLEUM SUPPLIES IN MONTANA, HAD UPDATED AND REPRINTED THE MONTANA ENERGY EMERGENCY CONTINGENCY PLAN, AND PARTICIPATED IN THE ANNUAL DEPARTMENT OF ENERGY EMERGENCY SIMULATION EXERCISE. SINCE THE INVASION IN AUGUST, WE HAVE INCREASED OUR MONITORING AND ASSESSMENT OF THE INTERNATIONAL, NATIONAL, AND LOCAL PETROLEUM SITUATION FOR CHANGES STEMMING FROM EVENTS IN THE MIDDLE EAST. WE HAVE DEVELOPED AND IMPLEMENTED A DAILY MONITORING PROGRAM WITH THE PETROLEUM INDUSTRY SO WE KNOW HOW MUCH PRODUCT IS AVAILABLE IN MONTANA AND WHERE IT IS. WE HAVE ALSO HAD TO HANDLE NUMEROUS PHONE CALLS AND EVEN DEALT WITH SOME SMALL TEMPORARY SHORTAGES THAT OCCURRED IN AUGUST.

IN ANTICIPATION OF THE JANUARY 15TH UNITED NATIONS DEADLINE, WE MET WITH THE DEPARTMENT OF ENERGY TO

2
DATE 1-29-91
HB 400. 400. 400.

COORDINATE ENERGY EMERGENCY PLANS, CONVENED AND BRIEFED THE LEGISLATIVE ENERGY POLICY COMMITTEE AND THE GOVERNOR, AND ARE PROVIDING WEEKLY BRIEFING PAPERS TO THE LEGISLATIVE ENERGY POLICY COMMITTEE AND THE LEGISLATIVE CONSUMER COMMITTEE. AS THE SITUATION SITS TODAY, WE FEEL CONFIDENT THAT THERE ARE NO PENDING PROBLEMS IN MONTANA.

THE STATUTE AND THE PLAN ALSO ADDRESS ELECTRICITY SHORTAGES, AND WE HAVE BEEN MEETING WITH UTILITIES AND OTHER STATES TO DEVELOP CONSISTENT REGIONAL ELECTRICITY CURTAILMENT PLANS. THIS EFFORT WAS INITIATED BY THE UTILITY INDUSTRY IN RECOGNITION THAT THE REGIONAL ELECTRICAL ENERGY SURPLUSES WE ENJOYED IN THE PAST ARE GONE.

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

SINCE MANY OF THE ENERGY POLICIES THAT MOST PROFOUNDLY AFFECT MONTANA ARE MADE OUTSIDE THE STATE, THE STATE IS SOMEWHAT AT THE MERCY OF OTHERS WHOSE DECISIONS MAY NOT CONSIDER WHAT IS BEST FOR MONTANA. THIS IS WHY IT IS ESPECIALLY IMPORTANT FOR MONTANA

DECISION MAKERS TO MONITOR ENERGY INITIATIVES AND ISSUES AND REPRESENT MONTANA'S CONCERNS WHEN THESE REGIONAL OR NATIONAL ENERGY POLICIES ARE FORMULATED. IN MANY CASES THE STAKES TO MONTANA ARE VERY HIGH.

TO ILLUSTRATE THE BUREAU'S RESPONSIBILITIES, I'D LIKE TO GIVE A COUPLE OF EXAMPLES OF HOW WE'VE INFLUENCED NATIONAL AND REGIONAL POLICIES DURING THIS BIENNIUM.

THE CLEAN AIR ACT WAS PROBABLY THE BIGGEST PIECE OF LEGISLATION THAT PASSED THE LAST SESSION OF CONGRESS AND HAD SIGNIFICANT POTENTIAL IMPACTS TO BOTH ENERGY CONSUMERS AND COAL PRODUCERS IN MONTANA. WE MET AND WORKED CLOSELY WITH THE U.S. SENATE ENVIRONMENT COMMITTEE STAFF TO DEVELOP PROVISIONS TO EXEMPT MONTANA CUSTOMERS AND THOSE IN OTHER STATES WITH CLEAN COAL PLANTS FROM FURTHER CLEANING THEIR PLANTS OR FROM PAYING FOR CLEANING UP DIRTY COAL PLANTS IN THE MIDWEST. THIS INCLUDED REVIEWING COMMITTEE STAFF DRAFTS, CORRECTING MISTAKES THAT COULD HAVE BEEN DETRIMENTAL TO MONTANA, AND REPRESENTING MONTANA'S CONCERNS TO THE SENATE ENVIRONMENT COMMITTEE. THE PROVISIONS EXEMPTING MONTANA FROM FURTHER REDUCTIONS AND FROM PAYING FOR CLEANING UP DIRTY MIDWEST COAL PLANTS WERE ULTIMATELY ADOPTED IN THE BILL RECENTLY

2
DATE 1-29-91
HEyr. Pw. Su

SIGNED BY THE PRESIDENT. HAD THE PROVISIONS EXEMPTING THE COLSTRIP UNITS FROM THE CLEAN AIR ACT NOT BEEN ADOPTED, WE ESTIMATE IT WOULD HAVE CONSERVATIVELY COST MONTANA POWER COMPANY RATEPAYERS OVER \$300 MILLION TO RETROFIT THE COLSTRIP PLANTS, WHEN THEY ARE SOME OF THE CLEANEST IN THE COUNTRY. THE U.S. DEPARTMENT OF ENERGY CONSULTED US EXTENSIVELY IN THE DEVELOPMENT OF ITS NATIONAL ENERGY STRATEGY. THEY WERE PARTICULARLY INTERESTED IN HOW TO WEIGH AND EVALUATE ALTERNATIVE PROPOSALS IN THE STRATEGY. IN FACT, I MET PERSONALLY WITH SECRETARY WADKINS ON TWO SEPARATE OCCASIONS TO DISCUSS OUR RECOMMENDATIONS.

NOT ALL ENERGY DECISIONS IN MONTANA ARE MADE BY THE DNRC, AND YET THESE OTHER DECISIONS SIGNIFICANTLY IMPACT ENERGY POLICIES OF THE STATE. FOR EXAMPLE, BOTH THE DNRC AND THE PUBLIC SERVICE COMMISSION MAKE IMPORTANT DECISIONS ABOUT THE ENERGY RESOURCE CHOICES THAT MONTANA UTILITIES MIGHT MAKE. BY STATUTE, THE APPROACHES WE TAKE IN MAKING ENERGY DECISIONS ARE DIFFERENT. THE DEPARTMENT TAKES A PROSPECTIVE APPROACH TO DECISION MAKING, WHILE THE PSC TAKES A RETROSPECTIVE ONE. THE ONLY WAY THE DEPARTMENT AND THE COMMISSION CAN AFFECT ONE ANOTHER'S POLICIES AND DECISIONS, IN ORDER FOR THE STATE TO HAVE CONSISTENT ENERGY POLICIES, IS TO FORMALLY PARTICIPATE IN EACH OTHER'S PROCEEDINGS.

THE PLANNING AND ANALYSIS BUREAU IS CURRENTLY INVOLVED IN PSC PROCEEDINGS INVOLVING NATURAL GAS. WE ARE ADDRESSING MPC'S PROPOSAL TO DEREGULATE PORTIONS OF ITS GAS UTILITY, WHICH IS A MAJOR ISSUE THAT GAS UTILITIES AND REGULATORY COMMISSIONS ARE CURRENTLY FACING NATIONWIDE. WE ARE TRYING TO CONVINCE THE PSC TO RESOLVE THE DOCKETS CONSISTENT WITH POSITIONS THAT THE DEPARTMENT FORMULATED ON NATURAL GAS WHICH HAVE BEEN FORMALLY ADOPTED BY THE NATIONAL GOVERNOR'S ASSOC.

PROBABLY ONE OF THE MOST SIGNIFICANT ACTIVITIES THAT THE BUREAU HAS EVER WORKED ON WAS A TWO-YEAR COLLABORATIVE PROCESS TO IMPROVE MONTANA POWER COMPANY'S (MPC) RESOURCE PLANNING AND ACQUISITIONS. THE BUREAU WORKED WITH THE UTILITY, ENVIRONMENTAL INTERESTS, LOW INCOME AND OTHER INDUSTRIAL CONSUMERS AS PART OF MPC'S CONSERVATION AND LEAST COST ADVISORY COMMITTEE. THE COMMITTEE PRODUCED A CONSENSUS REPORT TO MPC. ACCORDING TO A NATIONAL UTILITY TRADE JOURNAL, THE COMMITTEE'S WORK IS A LANDMARK. IT REPRESENTS THE FIRST TIME IN THE NATION THAT A DIVERSE GROUP OF PEOPLE WITH DIFFERING VIEWPOINTS ON ENERGY MATTERS HAS REACHED CONSENSUS ON AN APPROPRIATE WAY TO ACQUIRE NEW ELECTRICITY RESOURCES. THE OTHER FACT OF IMPORTANCE IS THAT THE COMMITTEE'S WORK IS RESULTING IN

2
DATE 1-29-91
HEPAC. Rev. Sub

SIGNIFICANT CHANGES IN THE WAY MPC GOES ABOUT ITS RESOURCE PLANNING. OUR GOAL IN PARTICIPATING IS TO PREVENT BATTLES LIKE THE COLSTRIP 3 & 4 EXPERIENCE FROM RECURRING IN MONTANA.

THE DEPARTMENT IS BUILDING ON THE SUCCESS OF THIS EFFORT AND EMBARKING ON ANOTHER TWO-YEAR COLLABORATIVE REVIEW WITH UTILITIES, PUBLIC INTEREST ORGANIZATIONS, LOW INCOME CONSUMERS, MAJOR UTILITY CUSTOMERS, AND THE PUBLIC SERVICE COMMISSION ON IMPROVING STATE REGULATION OF UTILITIES TO PROMOTE LEAST-COST PLANNING AND FUTURE UTILITY RESOURCE DECISIONS THAT ARE IN THE BEST INTERESTS OF THE STATE. THE NEED FOR SUCH AN EFFORT WAS IDENTIFIED IN THE COMMITTEE'S REPORT. THE GOAL OF THIS PROCESS IS TO DEVELOP A LEGISLATIVE PACKAGE OF IMPROVEMENTS FOR THE 1993 SESSION. WE HAVE TENTATIVE AGREEMENT FROM THE U.S. DEPARTMENT OF ENERGY TO FUND PUBLIC INTEREST GROUPS' PARTICIPATION IN THIS EFFORT.

THE PLANNING AND ANALYSIS BUREAU IS CONTINUING TO PROVIDE ONGOING ECONOMIC AND FINANCIAL ANALYSIS FOR THE DEPARTMENT. THE MOST RECENT ACTIVITIES INCLUDE UPDATING THE ANALYSIS AND FINANCIAL PROJECTIONS FOR THE BROADWATER POWER PROJECT AND ANALYZING THE POSSIBILITY OF REFINANCING THE VARIABLE RATE PORTIONS OF THE BONDS THAT WERE ORIGINALLY SOLD TO FINANCE THE PROJECT.

THE BUREAU ALSO CONTINUES TO EVALUATE THE EFFECTIVENESS OF ITS ENERGY CONSERVATION AND RENEWABLE ENERGY ACTIVITIES TO DETERMINE HOW THESE ACTIVITIES CAN BE IMPROVED AND WHAT ACTIVITIES SHOULD BE OFFERED IN THE FUTURE.

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 GRAPHS THAT I'VE SUPPLIED TO THE COMMITTEE MEMBERS RECOUNT THE MAGNITUDE OF OUR SPENDING REDUCTIONS.

- BETWEEN FY 83 AND FY 90 ACTUAL GENERAL FUND APPROPRIATIONS HAVE DECREASED 26 PERCENT; IF THE APPROPRIATIONS ARE ADJUSTED FOR INFLATION, THE DECREASE IS 45 PERCENT.
- DURING THE SAME PERIOD, ACTUAL EXPENDITURES HAVE DECLINED 26 PERCENT OR 41 PERCENT 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

EXHIBIT 2
DATE 1-29-91
Rev. 1-29-91

HAVE REACHED THE POINT WHERE FURTHER FUNDING REDUCTIONS WILL NECESSITATE SIGNIFICANT DECREASES IN PROGRAM SERVICES AND MAINTAINING CURRENT SERVICES IN FUTURE SIEMMIA WILL LIKELY REQUIRE MORE MONEY. 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 AND ITS ECONOMY.

THE OTHER MAJOR FUNDING AND PROGRAM RELATIONSHIP THAT EXISTS IN THE ENERGY DIVISION INVOLVES FUNDS ACQUIRED THROUGH GRANT AND LOAN REPAYMENTS THAT ARE EARMARKED IN THE ALTERNATIVE ENERGY ACCOUNT, AND FEDERAL FUNDS, WHICH INCLUDE THE OIL OVERCHARGE FUNDS THAT WERE APPROPRIATED BY PRIOR LEGISLATURES 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.

THE GROWING NATIONAL CONCERN OVER RISING OIL IMPORTS, DWINDLING RESERVE CAPACITIES, GLOBAL WARMING, AND ACID RAIN HAS PLACED A RENEWED EMPHASIS ON ENERGY EFFICIENCY AND HAS INCREASED INTEREST IN ACTIVITIES PROVIDED BY THESE PROGRAMS.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU'S ACTIVITIES CAN BE DIVIDED ON THE BASIS OF THE DIFFERENT CONSUMER GROUPS THEY SERVE. THE BUREAU PROVIDES BOTH TECHNICAL AND FINANCIAL ASSISTANCE.

MOST SCHOOLS AND HOSPITALS WERE BUILT WHEN ENERGY COST LESS THAN IT DOES TODAY. THESE BUILDINGS AND THE EQUIPMENT INSTALLED IN THEM ARE NOT ENERGY EFFICIENT BY CURRENT TECHNOLOGICAL AND ECONOMIC STANDARDS. THE ENERGY DIVISION AWARDS GRANTS TO INCREASE ENERGY EFFICIENCY AND REDUCE ENERGY COSTS IN SCHOOLS AND HOSPITALS. GRANTS ARE USED TO ANALYZE AND REMODEL BUILDINGS AND MODIFY EQUIPMENT. THE GRANTS ARE MATCHED DOLLAR FOR DOLLAR BY THE PARTICIPATING INSTITUTIONS.

EXAMINATION OF 24 PAST INSTITUTIONAL CONSERVATION PROGRAM GRANTS TO SCHOOLS SHOWED A 28 PERCENT AVERAGE ANNUAL REDUCTION IN NATURAL GAS CONSUMPTION, AND ANNUAL SAVINGS OF \$2,644 PER SCHOOL BUILDING. ONE OR MORE GRANTS HAVE BEEN AWARDED TO IMPROVE 223 BUILDINGS SINCE THE PROGRAM BEGAN IN 1977. THIS PROGRAM MAY BE SAVING MONTANA TAXPAYERS AS MUCH AS \$600,000 ANNUALLY.

HB 2
DATE 1-29-91
HB Mark Pen Aul

HOSPITALS MAY USE ENERGY SAVINGS TO PURCHASE EQUIPMENT, KEEP PATIENT COSTS LOW OR EXPAND THEIR SERVICES.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU WORKS TO REDUCE THE ENERGY REQUIREMENTS FOR NEW RESIDENTIAL AND COMMERCIAL BUILDINGS. NEW CONSTRUCTION IS TARGETED BECAUSE ENERGY CONSERVATION MEASURES ARE EASILY ADDED DURING DESIGN AND CONSTRUCTION BUT ARE MORE DIFFICULT, MORE COSTLY, OR SOMETIMES IMPOSSIBLE TO INSTALL WHEN REMODELING.

THE BUREAU TRAINS BUILDERS IN STATE-OF-THE-ART METHODS FOR INCORPORATING ENERGY-EFFICIENT COMPONENTS INTO NEW BUILDINGS. TO REACH THE NEXT GENERATION OF BUILDERS, VO-TECH STUDENTS ARE TRAINED IN ENERGY-EFFICIENT HOUSING DESIGN AND CONSTRUCTION TECHNIQUES.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU, ALONG WITH BPA AND PARTICIPATING UTILITY COMPANIES, SPONSORS DEMONSTRATION HOUSES TO FAMILIARIZE BUILDERS, CODE OFFICIALS, AND UTILITY PERSONNEL WITH ENERGY-EFFICIENT CONSTRUCTION, AND TO TEST THE FEASIBILITY OF NEW CONSTRUCTION TECHNIQUES, MATERIALS, AND EQUIPMENT IN MONTANA'S CLIMATE. THE DIVISION MONITORS THESE HOUSES'

THERMAL PERFORMANCE AND PROVIDES RESULTS TO BUILDERS, UTILITY COMPANIES, HOMEOWNERS, AND HOMEBUYERS.

HOMEBUYERS ARE ENCOURAGED THROUGH WORKSHOPS, PUBLICATIONS AND PERSONAL CONTACTS TO CONSIDER ENERGY PERFORMANCE WHEN BUYING OR BUILDING A NEW HOUSE. THESE EFFORTS ARE CREATING A CONSUMER DEMAND FOR ENERGY-EFFICIENT HOUSING. BUILDERS ARE RESPONDING TO THE CONSUMERS' WANTS AND MORE BUILDERS ARE ATTENDING TRAINING SESSIONS AND CONSTRUCTING HIGH PERFORMANCE HOUSES EVERY YEAR.

COMMERCIAL OPERATIONS DEPEND ON ENERGY FOR LIGHTING, HEATING AND COOLING, AND FOR OPERATING KITCHENS, BAKERIES, LAUNDRY, AND DRY CLEANING PROCESSES AND MANY OTHER FACILITIES. MOST COMMERCIAL BUILDINGS AND PROCESSES ARE AT LEAST A FEW YEARS OLD AND WERE NOT DESIGNED WITH ENERGY CONSERVATION IN MIND. ENERGY HAS COME TO DEMAND A LARGER PART OF BUSINESSES' OPERATING COSTS AND CAN EAT INTO PROFITS, MAKING BUSINESSES LESS VIABLE AND THREATENING ECONOMIC GROWTH. THE CONSERVATION AND RENEWABLE ENERGY BUREAU OFFERS A VARIETY OF PROGRAMS THAT HELP BUSINESS OWNERS OR MANAGERS REDUCE ENERGY COSTS IN THEIR BUILDINGS AND OPERATIONS AND INCREASE PROFITABILITY.

EXHIBIT 2
DATE 1-29-91
BY Mr. Paul Sullivan

THE BUREAU CONTRACTS FOR NATIONAL CALIBER SPEAKERS TO ADDRESS MONTANA BUSINESS ASSOCIATIONS ON ENERGY-SAVING MEASURES SPECIFIC TO THEIR TYPES OF BUSINESSES. IT ALSO CONDUCTS WORKSHOPS TO TEACH BUILDING MANAGERS AND MAINTENANCE PERSONNEL HOW TO INCREASE THE EFFICIENCY OF BOILERS, LIGHTING, PUMPS AND MOTORS, HEATING, VENTILATING AND AIR CONDITIONING SYSTEMS. THE BUREAU ALSO PUBLISHES AND DISTRIBUTES PERIODIC BULLETINS AND CASE STUDIES ON SUCCESSFUL ENERGY SAVING MEASURES IMPLEMENTED BY MONTANA BUSINESSES AND INSTITUTIONS.

MONTANA INDUSTRY GENERALLY USES LARGE AMOUNTS OF DIESEL FUEL TO PRODUCE AND TRANSPORT MARKETABLE GOODS. BECAUSE OF MONTANA'S GEOGRAPHIC LOCATION AND ITS SYSTEM FOR PRODUCING, TRANSPORTING, AND REFINING OIL, THE STATE IS ESPECIALLY VULNERABLE TO PETROLEUM SUPPLY DISRUPTIONS. A REDUCTION IN THE AMOUNT OF DIESEL CONSUMED BY INDUSTRY REDUCES VULNERABILITY TO PETROLEUM SUPPLY DISRUPTIONS AND HELPS REDUCE THE COST OF PRODUCING GOODS AND THE DELIVERED COSTS TO THE CONSUMER.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU OFFERS TRACTOR AND COMBINE CLINICS TO SHOW FARMERS AND RANCHERS HOW TO REDUCE THEIR USE OF DIESEL FUEL.

THE BUREAU'S IRRIGATION WORKSHOPS AND PUBLICATIONS SHOW IRRIGATORS HOW TO REDUCE THEIR USE OF DIESEL FUEL OR ELECTRICITY. THE DIVISION PROVIDED 5,000 MONTANA IRRIGATORS WITH A POCKET GUIDE THAT THEY CAN EASILY USE IN THE FIELD FOR IMPLEMENTING ENERGY EFFICIENT PRACTICES FOR EQUIPMENT USE AND WATER MANAGEMENT. THIS PUBLICATION EARNED NATIONAL RECOGNITION LAST YEAR WHEN IT WAS SELECTED BY THE U.S. DOE AS THE BEST ENERGY PUBLICATION WRITTEN BY ANY OF THE U.S. STATES OR TERRITORIES.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU PROVIDES TECHNICAL ASSISTANCE TO SAWMILLS, WOOD PELLET PLANTS, AND INDIVIDUALS INTERESTED IN USING WOOD AS AN ENERGY SOURCE. THIS ASSISTANCE INCLUDES RECOMMENDATIONS FOR REDUCING OPERATING COSTS, INFORMATION ON THE AMOUNT AND TYPE OF WOOD AVAILABLE IN A PARTICULAR AREA, POTENTIAL MARKETS FOR THE WOOD, INFORMATION ON REGULATORY REQUIREMENTS, AND ASSISTANCE THROUGHOUT THE PROCESS.

PARTIALLY AS A RESULT OF THESE EFFORTS, THE EUREKA PELLET MILL IS NOW IN OPERATION PRODUCING 3,000 TONS OF PELLETS PER MONTH FROM SAWMILL WASTES AND EMPLOYING 26 PEOPLE. BESIDES THE ECONOMIC BENEFITS OF THE NEW

2
DATE 1-29-91
HB 4 Mr. Fred Neil

BUSINESS, THE USE OF WOOD WASTES AS AN ENERGY SOURCE ALLEVIATE A DISPOSAL PROBLEM FOR THE SAWMILL.

THE CONSERVATION AND RENEWABLE ENERGY BUREAU EXPECTS TO RECEIVE ADDITIONAL FEDERAL FUNDS FROM THE U.S. DEPARTMENT OF ENERGY BECAUSE OF THE RENEWED NATIONAL EMPHASIS ON ENERGY CONSERVATION AND RENEWABLE ENERGY AS ALTERNATIVES TO HIGH PRICED AND UNCERTAIN SUPPLIES OF IMPORTED OIL. THESE FUNDS WILL BE AVAILABLE FOR GRANTS TO DEVELOP BIOMASS ENERGY RESOURCES FROM AGRICULTURAL AND WOOD WASTES. THE GRANTS WILL BE USED TO ASSIST IN THE DEVELOPMENT OF ALTERNATIVE TRANSPORTATION FUELS. GRANTS ALSO WILL BE USED TO ASSIST IN THE DEVELOPMENT OF BIOMASS FUELS FOR PROCESS HEAT AND SPACE HEATING IN MONTANA'S COMMERCIAL BUSINESSES AND INDUSTRIES.

ADDITIONAL FUNDING ALSO WILL BE AVAILABLE TO PROVIDE MONTANA CONSUMERS, BUSINESSES, AND INDUSTRIES WITH INFORMATION ON ENERGY CONSERVATION OPPORTUNITIES AND OTHER RENEWABLE ENERGY OPTIONS. THE BUREAU WILL EXAMINE INDUSTRIES THAT HAVE A HIGH POTENTIAL FOR ENERGY CONSERVATION. THE MINING INDUSTRY WILL BE ONE OF THE INDUSTRIES TARGETED BECAUSE OF THE GROWTH IN THIS INDUSTRY AND THE RELATIVELY HIGH ENERGY USE IN MINING.

WE WILL ALSO MAKE AN EXPANDED EFFORT TO ENCOURAGE STATE AND LOCAL GOVERNMENT PROCUREMENT PRACTICES THAT CONSERVE ENERGY AND TO INSTITUTE RECYCLING OF PAPER AND OIL.

IN CLOSING, I'D LIKE TO REITERATE MY BELIEF THAT THE ENERGY DIVISION HAS DISCIPLINED ITSELF OVER THE PAST SEVERAL YEARS TO BEING EXTREMELY FRUGAL. THE BUDGET BEFORE YOU IS, AS MS. BARCLAY TESTIFIED, A VERY CONSERVATIVE ONE. I HOPE YOU WILL GIVE FAVORABLE CONSIDERATION TO OUR REQUEST.

THANK YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE YOU. I'D BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
ENERGY DIVISION
MANAGEMENT, PLANNING AND FACILITY SITING
TABLE SHOWING EMPLOYEE TURNOVER
January 1989 - December 1990

POSITION NUMBER	CLASSIFI- CATION	YEARS/DNRC		SALARY DNRC	NEW POS. WHERE	NEW SALARY WHERE KNOWN	PERCENT INCREASE or DECREASE	TERM. DATE
42085	Admin. Asst.	5 yrs.	5 mos.	\$19,064	School Seattle, WA	-	-	08/18/89
43035	Res. Spec. III	3 yrs.	10 mos.	\$22,366	BPA	\$32,000	43%+	08/11/89
40030	Env. Spec. IV	5 yrs.	4 mos.	\$25,449	Portland	\$39,990	57%+	06/19/90
42000	Res. Asst. II	1 yr.	3 mos.	\$17,365	Law School	-	-	09/29/89
44015	Secretary II	4 yrs.	4 mos.	\$13,853	Sec. III DNRC	\$15,420	11%+	08/07/89
40020	Res. Prog. Mgr. II	13 yrs.		\$34,726	Dep. Dir. DNRC	\$40,242	16%+	10/07/89
40060	Earth Sci. Coord.		5 mos.	\$23,228	Grasslands	-	-	02/24/89
10110	Economist II	<u>5 yrs.</u>	<u>4 mos.</u>	\$24,313	DNRC	\$29,015	19%+	11/02/90
Total Years of Experience Lost		38 yrs.	11 mos.					

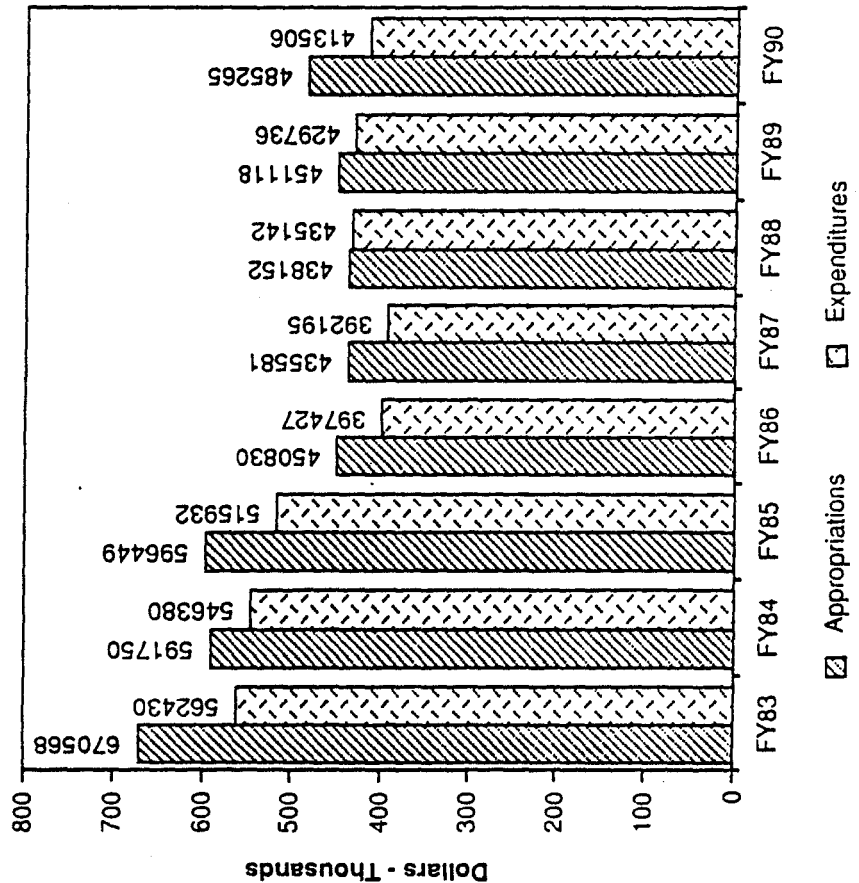
Note: On the average, former employees were paid 29.2% more in their new positions.

EXHIBIT 3
DATE 1-29-91
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1-29-91
Exhibit 3

Exhibit 4

APPROPRIATIONS AND EXPENDITURES



APPROPRIATIONS AND EXPENDITURES
ADJUSTED FOR INFLATION

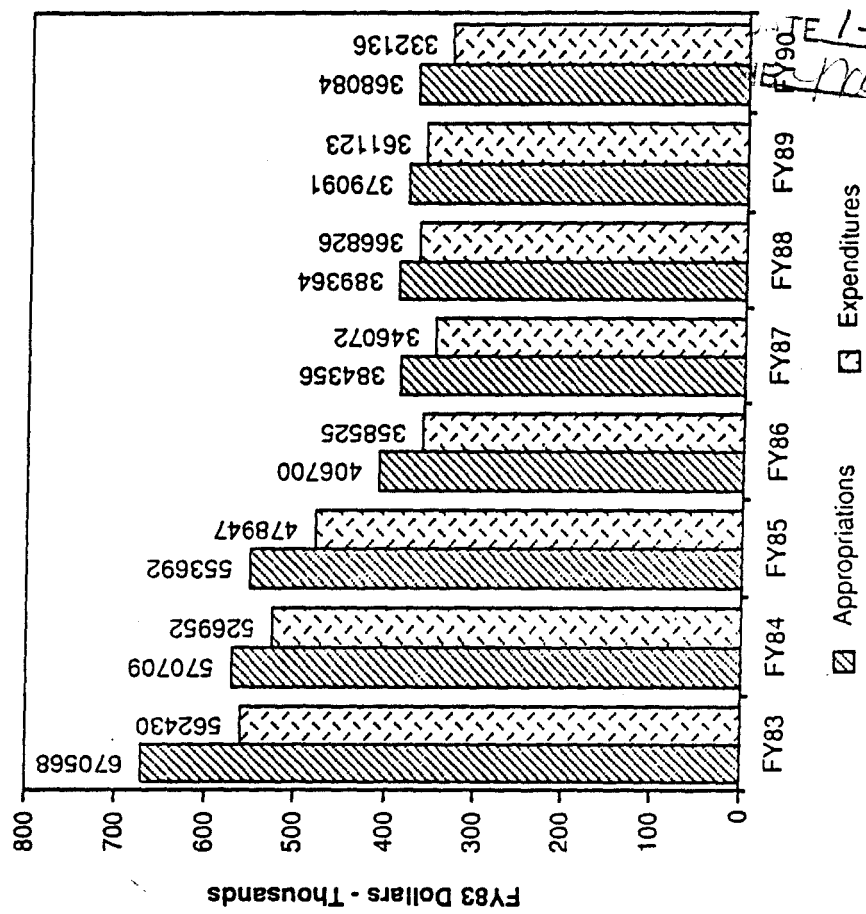


EXHIBIT 4
TE 1-29-91
Mark B. Sullivan

CONSERVATION AND RENEWABLE BUREAU
TABLE SHOWING EMPLOYEE TURNOVER
January 1989 - December 1990

POSITION NUMBER	CLASSIFI- CATION	YEARS/DNRC	SALARY DNRC	NEW POS. WHERE	NEW SALARY WHERE KNOWN	PERCENT		TERM. DATE
						INCREASE or	DECREASE	
40080	WPO III	6 mos.	\$14,786	Secretary Hist. Soc.	-	-		06/23/89
43050	Pro. Mgr. V	10 yrs.	\$27,665	DNRC	\$25,445	09%-		08/13/90
40120	En. Ed. Spec.	3 yrs.	\$20,669	School Oregon	-	-		08/01/90
42095	WPO III	7 mos.	\$13,554	Secretary Havre, MT	-	-		03/24/89
42080	Prog. Ofc. II	4 yrs.	\$23,720	League of Wash. Cities	\$35,000	48%+		06/16/89
40130 ¹	En. Ed. Spec.	4 yrs.	\$20,528	MDHES	\$24,313	18%+		12/15/89
42043	En. Ed. Spec.	4 yrs.	\$20,528	WSECO	\$31,000	51%+		02/23/90
43030	Mech. Engr. I	2 yrs.	\$20,109	Mech. Engr. MDHES	\$23,809	18%+		03/02/90
43000	En. Ed. Spec.	9 yrs.	\$23,806	Admin. WSECO	\$30,000	26%+		11/30/89
42035	Mech. Engr. II	4 yrs.	\$22,366	Mech. Engr. MDHES	\$24,828	11%+		03/09/90
42045	En. Ed. Spec.	3 yrs.	\$20,109	WSECO	\$33,000	64%+		01/12/90
Total Years of Experience Lost		47 yrs.						

¹ The Department was forced to advertise twice for position #40130 before finding a qualified job applicant who would accept an offer of employment with the agency.

Note: It took five years, 1983-1988, for the Bureau to experience turnover of the magnitude cited above. This suggests that the turnover rate in the last biennium was 2.5 times as rapid as what we've experienced historically. On average, former employees were paid 28.4% more in their new positions.

WSECO = Washington State Energy Office

DATE 1-29-91

1-29-91
B. Allen 5

1-29-91
Exhibit 6

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	40.00	40.00	38.00	2.00	40.00	38.00	2.00
Personal Services	1,064,797	1,192,278	1,134,049	58,229	1,191,626	1,133,440	58,186
Operating Expenses	443,224	1,887,476	1,499,822	387,654	1,892,998	1,500,640	392,358
Equipment	38,883	10,469	10,469	0	11,854	11,854	0
Capital Outlay	443,741	0	0	0	0	0	0
Grants	154,555	255,000	255,000	0	255,000	255,000	0
Debt Service	6,105	6,638	5,096	1,542	6,638	5,096	1,542
Total Expend.	\$2,151,305	\$3,351,861	\$2,904,436	\$447,425	\$3,358,116	\$2,906,030	\$452,086
Fund Sources							
General Fund	413,515	496,960	495,956	1,004	501,705	498,089	3,616
State Revenue Fund	920,032	1,475,174	1,380,380	94,794	1,475,133	1,379,995	95,138
Federal Revenue Fund	817,758	1,379,727	1,028,100	351,627	1,381,278	1,027,946	353,332
Total Funds	\$2,151,305	\$3,351,861	\$2,904,436	\$447,425	\$3,358,116	\$2,906,030	\$452,086

LFA Current Level Analysis Reference: page C-44
Executive Budget Summary Reference: page 89
Executive Budget Narrative Reference: page 34

Current Level Issues

-----Executive Over (Under) LFA-----

- A. Reorganization Issues
NONE
- B. Appropriation Policy Issues (Non-action Items)
1. Difference in Computer Network Charge
2. Difference in inflation
- C. Budget Base Differences
- D. Program Issues
1. Executive Budget includes 2.0 FTE deleted by LFA due to extended vacancy. (federal funds) 2.0 2.0
2. Executive Budget includes \$5000 for overtime not included in LFA current level (federal funds) 13,000 2,500
3. Executive Budget includes \$145,000 for Montana Power/Western Area Power Administration ad spec. 62,500 72,500
Builder Training not included in LFA current level. (federal funds) 15,000 15,000
4. Executive Budget includes \$30,000 for Lake Broadview mitigation activities not included in LFA current level. (state special revenue) 34,692 36,775
5. Executive Budget includes \$71,467 more than LFA for Conservation Bureau's operating expenses. (federal funds)

DATE 1-29-91
HEG Jek. Pas. Del

Law Bangston accepted LFA Budget. Union
Law Bangston & B. 1-5 Union

6. Executive Budget includes \$523,810 for the State Building Energy Conservation Bond Program (SBECP), which is not included in LFA current level and is being requested in separate legislation (LC 904)

after legislation a new current level -

	2.0	2.0	447,425	261,905	261,905
TOTAL					

D. Language Issues

1. Rock Creek Mitigation (state special revenue)
 - a. \$400,000 in both Executive Budget and LFA current level is a biennial appropriation.
 - b. Authority to spend in addition to \$400,000-----up to \$1.1 million over the biennium.
2. Lake Broadview--\$30,000 biennial appropriation (state special revenue)

LB Budget Unrun

400,000
1,100,000
30,000

E. Additional Issues

1. Neither Executive Budget nor LFA includes \$28,659 for pay exceptions pending approval. *OBPP not supporting*

14,357 14,302

Executive Budget Modification *LB - 772-244 - Unrun*

A. Energy Conservation

107,000 334,500

6
1-29-91
HB _____

MODIFIED BUDGET REQUEST

Department of Natural Resources & Conservation
Energy Division

ENERGY CONSERVATION

This budget modification would add funds to implement federal energy efficiency programs through the State Energy Conservation program. It would also allow the department to provide energy-efficiency technical assistance to consumer groups through the Biomass Utilization and Cogeneration program.

Object of Expenditure	Fiscal 1992	Fiscal 1993
Operating Expenses	\$ 29,500	\$168,000
Grants	77,500	166,500
TOTAL	\$107,000	\$334,500
<u>Funding</u>		
Federal Funds	\$107,000	\$334,500

7
1-29-91
Nat Res Serv.

A federal reserved water right is a right to use water that is *implied* when the federal government *reserves land* from the public domain by an act of Congress, a treaty, or an executive order.

A federal reserved water right may also be created by *explicit* direction of congress in *federal statutes*.

The Compact Commission may also enter into separate negotiations with the federal government *concerning the equitable division and apportionment of water between the state and its people and the federal government claiming non-Indian reserved waters within the state...*

Montana Code Annotated
Section 85-2-703.

EXHIBIT 7
DATE 1-29-91
HB Mar. 425. 100

...It is the intent of the legislature to conduct unified proceedings for the general adjudication of existing water rights under the Montana Water Use Act.

..It is further intended that the state of Montana proceed under the provisions of this part in an effort to conclude compacts *for the equitable division and apportionment of waters between the state and its people and the several Indian tribes claiming reserved water rights within the state.*

Montana Code Annotated Section 85-2-701 (1).

**MONTANA RESERVED WATER
RIGHTS COMPACT COMMISSION**

Senator Jack E. Galt, Chairman (Martinsdale)

Chris Tweeten, Vice-Chairman (Helena)

Gene Etchart (Glasgow)

Carl Davis (Dillon)

Everett Elliott (Conrad)

W. Gordon McOmber (Helena)

Senator Joseph P. Mazurek (Helena)

Representative Gary Spaeth (Red Lodge)

Representative Dennis Iverson (Whitlash)

EXHIBIT 7
DATE 1-29-91
BY Yak. Rep. Div.

**STATE
APPROPRIATIVE
RIGHTS**

**FEDERAL
RESERVED
RIGHTS**

SOURCE

state statutes

federal treaties,
statutes, and
executive orders

BASIS

historic
beneficial use

purpose of
reservation

PRIORITY

date first put to
beneficial use

date land
withdrawn

QUANTITY

historic
beneficial use
unless abandoned

amount necessary
to fulfill purposes
for which land
was reserved and,
therefore, cannot
be abandoned

**FEDERAL AGENCIES CLAIMING
FEDERAL RESERVED WATER
RIGHTS IN MONTANA**

National Park Service

Glacier National Park
Yellowstone National Park
Big Horn National Monument
Big Hole National Battlefield
Custer National Battlefield

United States Fish and Wildlife Service

National Bison Range
C.M. Russell National Wildlife Refuge
Black Coulee National Wildlife Refuge
Benton Lake National Wildlife Refuge
Bowdoin National Wildlife Refuge

United States Bureau of Land Management
Wild and Scenic Missouri River

United States Department of Agriculture

National Forests
Wilderness Areas
Range and Livestock Research Station
Sheep Experiment Station

DATE 1-29-91
BY Nat. Res. Serv.

**INDIAN TRIBES CLAIMING
FEDERAL RESERVED WATER
RIGHTS IN MONTANA**

Assiniboine & Sioux Tribes of Fort Peck

Assiniboine & Gros Ventre Tribes of Fort Belknap

Blackfeet

Chippewa Cree of Rocky Boy's Reservation

Confederated Salish & Kootenai of the Flathead

Crow

Northern Cheyenne

Turtle Mountain Band of Chippewa

RESERVED WATER RIGHTS COMPACT COMMISSION

	Fiscal 1990 Actual	Fiscal 1991 Appropriated	Base	Fiscal 1992 Incr/Decr	Recommended	Base	Fiscal 1993 Incr/Decr	Recommended
Full Time Equivalent Employees	11.00	13.00	13.00	-1.00	12.00	13.00	-1.00	12.00
Personal Services	222,317.68	363,717	375,042	-27,066	347,976	374,294	-27,001	347,293
Operating Expenses	45,874.26	59,962	63,192	5,031	68,223	63,092	7,069	70,161
Equipment	23,627.51	15,460	15,460	-8,750	6,710	15,460	-10,789	4,671
Debt Service	1,379.45	20,995	20,995	3,720	24,715	20,995	3,720	24,715
Total Agency Costs	\$293,198.90	\$460,134	\$474,689	\$-27,065	\$447,624	\$473,841	\$-27,001	\$446,840
General Fund	112,815.85	179,116	182,154	-27,065	155,089	182,115	-27,001	155,114
State Special Revenue Fund	180,383.05	281,018	292,535	0	292,535	291,726	0	291,726
Total Funding Costs	\$293,198.90	\$460,134	\$474,689	\$-27,065	\$447,624	\$473,841	\$-27,001	\$446,840

Overview

The Reserved Water Rights Compact Commission was created by the Legislature in 1979 as part of the water rights adjudication effort. The purpose of the Commission is to negotiate water rights with Indian tribes and federal agencies, with the intent to establish a formal agreement on the amount of water to be allocated to each interest. An agreement of this type is known as a "compact". To date, the Commission has concluded one compact, with the Fort Peck tribes in 1985.

The 1985 and 1987 sessions of the Legislature directed the Commission to concentrate its efforts on the Milk River Basin where water shortages were considered most serious. The Commission is now working to establish compacts with the Blackfeet, Rocky Boy's, Fort Belknap, and Northern Cheyenne reservations, and with the National Park Service and the U.S. Fish and Wildlife Service.

The Commission consists of nine citizens who are appointed for life, or as long as the Commission exists. Four members are appointed by the Governor, two by the Speaker of the House, two by the President of the Senate, and one by the Attorney General. The members receive pay and expense reimbursement at the same rate as Legislators for the time spent on Commission business. Commission

members are organized into four-person negotiating teams.

Organizationally, the Commission is part of the Governor's Office, but it is served by a twelve-member staff that is administratively attached to DNRE. Three programs are administered by the Commission staff. These are information services, Commission negotiations and administrative support. Other services provided include budget analysis and secretarial services, processing of claim vouchers for Commission salaries, travel expenses and per diem.

Goals

- o Provide legal, historical and technical information and analysis to the Montana Reserved Water Rights Compact Commission necessary for effective negotiations to quantify federal reserved water rights in Montana.

- o Participate in the development and negotiation of reserved water rights compacts with the Indian tribes and federal agencies in Montana.

1-29-00
Mar. Res.
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o Provide administrative support to the Montana Reserved Water Rights Compact Commission to facilitate the development and negotiation of reserved water rights compacts with the Indian tribes and federal agencies in Montana.

Authorization

MCA Section 2-15-212
Creation of the Montana Reserved Water Rights Compact Commission.

MCA Sections 85-2-701, et. seq.
Authority granted to the Commission to negotiate with tribes and federal agencies.

MCA Section 85-2-217
Suspension of the adjudication of federal reserved water rights while compact negotiations are in process.

MCA Section 85-2-218
Process for establishing priority basins.

MCA Section 85-2-231, et. seq.
Inclusion of compacts in the decrees of the Montana Water Court.

MCA Section 85-2-321
Milk River Basin priority.

MCA Section 85-20-201
The Fort Peck-Montana Compact.

Base Program

The following three programs are administered by the Commission staff.

Information Services Program--

The purpose of this program is to provide the Commission with all the information and analysis it needs to negotiate water rights with the tribes and federal agencies. The required information covers a wide range. The staff assembles and analyzes all case law, treaties,

and statutes pertaining to the areas under negotiation. Relevant documents and staff memoranda are compiled into notebooks which are provided to each member of the Commission's negotiating team. The staff obtains, reviews, and indexes historical and archival materials, along with technical data and reports pertaining to issues important to the negotiations. This material is compiled and periodically updated into bibliographies for use by the Commission and staff.

The staff reviews and analyzes the technical accuracy of reserved water right claims submitted to the Commission. Satellite images and aerial photographs are acquired and analyzed, and the resulting data are entered into a computerized data base of natural resource information. This data base also includes information obtained from federal agencies. Federal sources provide information such as stream-gauging records, precipitation data, reports on groundwater resources, soil surveys and topographic maps.

As part of its information duties, the staff performs hydrologic analyses including water availability studies and computer modeling of flows that would result under a variety of conditions in the basin. On the basis of these analyses, the staff tabulates the present water requirements of the Indian reservations and wildlife refuges and calculates their potential water needs for the future. The Commission's negotiating teams use the staff's calculations in formulating their negotiating positions.

Engineering and economic analyses of potential irrigation storage and delivery systems are essential in determining the amount of water likely to be needed in a basin in the future. The staff performs these analyses and then considers alternative developments that would use various amounts of water. Whenever possible, the staff performs field investigations to check the accuracy of data obtained from aerial photographs and satellite images.

Commission Negotiations Program--

This program brings the staff directly into the Commission's negotiating process. Staff members

participate in meetings of the Commission and Commission negotiating teams, where they provide explanations and recommendations of technical, legal, and historical issues.

On the basis of their research, staff members identify various hypothetical development scenarios and the amount of water that would be needed for each. For example, staff would consider soil types and topography to determine how much land could feasibly be irrigated on Indian reservations, and the amount of water needed. The Commission would consider this when negotiating water quantifications for the tribes.

The staff recommends negotiating strategies to the Commission, and the Commission has authorized the staff attorney to negotiate on its behalf. The staff responds at the direction of the Commission to proposals by the participating tribes and federal agencies. As negotiations proceed and agreement is reached on various points, the staff attorney drafts preliminary and then final versions of the official wording that will be used in the compact.

Throughout the negotiation process, the staff organizes and advertises public meetings to inform the public. These meetings are attended by members of the staff and the Commission, and are open to all interested parties. The meetings are advertised in newspapers that serve the affected basin, and notice is sent to all potentially affected water right holders.

Although state government agencies are not involved directly as parties to the negotiations, the Commission staff keeps them informed. When appropriate, staff members arrange for agency representatives to meet with the chairmen of the negotiating teams. Staff also encourages state agencies to attend negotiating team meetings, Commission meetings, negotiating sessions, and public meetings. State agencies are invited to submit format recommendations when appropriate.

Every six months, on January 15 and July 15, the staff submits reports to the Montana Water court on the status of negotiations.

Administrative Support Programs--

This program provides administrative support for the work of the Commission and staff. It includes transmittal of correspondence and other written materials, routing of telephone messages, and ensuring the distribution of important information.

Program services include provision of agendas, transcripts, minutes, and background information for each Commission meeting and negotiating session. The staff arranges the logistics for all Commission operations, including Commission meetings, negotiation team meetings, public meetings, negotiating sessions, and field investigations. Up to 30 meetings are held each year.

Other services provided include budget analysis and secretarial services, processing of claim vouchers for Commission salaries, travel expenses, and per diem.

Base Funding

The Reserved Water Rights Compact Commission and its staff are funded by the general fund (38%) and by the reclamation and development fund (62%).

EXHIBIT

DATE 1-29-91
BY Ver. Res. Div

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Performance Indicators

Comprehensive Research Reports for federal and Indian Reservations

	<u>FY90 Actual</u>	<u>FY91 Enacted</u>	<u>FY92 Base</u>	<u>FY93 Base</u>
Historical report	1	2	2	2
Legal analysis	1	2	2	2
Hydrological report	1	2	2	2
Soils analysis	1	2	2	2
Agricultural Engineering plan	1	2	2	2
Economic analysis	1	2	2	2
Geographical information system (GIS) mapping	1	2	2	2

Increase or Decrease from Base

<u>Item</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
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Modification Requests:

Personal Services Effective July 1, 1990, the RWRCC was authorized position #55257. This position was one of those identified by the department to be deleted to meet the personnel cuts mandated by the Budget office on August 8, 1990. RWRCC general funds were reduced to reflect this deletion.

- \$ 27,066 - \$ 27,001

Reallocations:

The base budget reflects a one-time allocation to equipment of costs associated with 1990-91 staff increases. In the next biennium some of these costs will be reallocated to operating expenses and debt services.

Operating Expenses	\$ 5,031	\$ 7,069
Equipment	- \$ 8,750	- \$10,789
Debt Service	\$ 3,720	\$ 3,720

Exhibit 9 is a 114-page report entitled "Land and Water Resources of the Northern Cheyenne Indian Reservation". The original is available at the Montana Historical Society, 225 North Roberts, Helena, MT 59601. (Phone 406-444-4775)

5706 DEPT NAT RESOURCE/CONSERVATION
25 RESERVED WATER RIGHTS COMP COM
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DATE : 01/08/91
TIME : 21/29/24
CURRENT LEVEL COMPARISONS

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	11.00	12.00	11.00	1.00	12.00	11.00	1.00
Personal Services	222,320	347,976	320,124	27,852	347,293	319,506	27,787
Operating Expenses	45,877	68,223	45,267	22,956	70,161	44,848	25,313
Equipment	23,627	6,710	6,710	0	4,671	4,671	0
Debt Service	1,379	24,715	1,379	23,336	24,715	1,379	23,336
Total Expend.	\$293,203	\$447,624	\$373,480	\$74,144	\$446,840	\$370,404	\$76,436
Fund Sources							
General Fund	112,818	155,089	149,392	5,697	155,114	148,162	6,952
State Revenue Fund	180,385	292,535	224,088	68,447	291,726	222,242	69,484
Total Funds	\$293,203	\$447,624	\$373,480	\$74,144	\$446,840	\$370,404	\$76,436

LFA Current Level Analysis Reference: page C-42
Executive Budget Summary Reference: page 89
Executive Budget Narrative Reference: page 30

Current Level Issues

A. Reorganization Issues
NONE

B. Appropriation Policy Issues (Non-action Items)

1. Difference in Computer Network Charge
2. Difference in inflation

C. Budget Base Difference

D. Program Issues

1. Executive Budget includes 1.0 fte deleted by LFA due to extended vacancy. *Executed E.B. 5-1* 1.0 1.0
2. Executive Budget includes \$36,000 for consultation and professional services not included in LFA (general fund and state special revenue) *Executed E.B. 5-1* 18,000 18,000
3. Executive Budget includes \$46,672 for computer purchase not included in LFA (general fund and state special revenue) *Executed E.B. 5-1* 23,336 23,336
4. Executive Budget includes \$12,035 more than LFA for maintenance contracts. *Executed E.B. 5-1* 4,998 7,037

TOTAL

74,144 76,436

EXHIBIT 10
DATE 1-29-91
HB Nat. Res. Div.

---Executive Over (Under) LFA---

1,968 1,968
(419) (101)
(\$42) \$276

1.0 1.0

1.0 1.0

1.0 1.0

1.0 1.0

1.0 1.0

8. Additional Issues

1. Neither Executive Budget nor LFA include \$65,846 for pay exceptions already approved. *Not allowed*
(general fund and state special revenue)

32,985

32,861

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Date 1-29-91

COMMITTEE

BILL NO.

DATE

SPONSOR(S)

PLEASE PRINT

PLEASE PRINT

PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Wayne McFarland	DNRC			
Van Jamison	DNRC			
Ann Danner	DNRC			
John Armstrong	DNRC			
Susan Cunningham	RWCC/DNRC			
Anna Miller	CARD/DNRC			
Joe Maguire	SP23 - RWCC			

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.