

SENATE BILL NO. 456

INTRODUCED BY FULLER, HARPER

IN THE SENATE

February 16, 1983	Introduced and referred to Committee on Business and Industry.
February 18, 1983	Fiscal Note requested.
February 19, 1983	Committee recommend bill do pass as amended. Report adopted.
February 21, 1983	Fiscal Note returned. Bill printed and placed on members' desks.
February 22, 1983	Second reading, do pass. Correctly engrossed.
February 23, 1983	Third reading, passed. Ayes, 47; Noes, 2. Transmitted to House.

IN THE HOUSE

February 28, 1983	Introduced and referred to Committee on Business and Industry.
March 22, 1983	Committee recommend bill be concurred in as amended. Report adopted. Statement of Intent attached.
March 24, 1983	Second reading, concurred in as amended. Statement of Intent amended.

March 25, 1983	On motion taken from third reading and referred to second reading.
March 26, 1983	Second reading, pass consideration.
March 28, 1983	Second reading, concurred in as amended.
	Third reading, concurred in.

IN THE SENATE

March 29, 1983	Returned to Senate with amendments and Statement of Intent.
April 8, 1983	Second reading, amendments not concurred in.
	On motion, Free Conference Committee requested.
	Free Conference Committee appointed.
April 13, 1983	Free Conference Committee reported.
April 15, 1983	Second reading, Free Conference Committee report and Statement of Intent adopted.
April 15, 1983	Third reading, Free Conference Committee report and Statement of Intent adopted.
	Free Conference Committee report adopted by House.
	Sent to enrolling.
	Reported correctly enrolled.

1 *Senate* BILL NO. *456*
2 INTRODUCED BY *Tuller Hager*
3
4 A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW AN ELECTRIC OR
5 GAS UTILITY TO PURCHASE OR INVEST IN COST-EFFECTIVE ENERGY
6 CONSERVATION; TO REQUIRE THE PUBLIC SERVICE COMMISSION TO
7 INCLUDE CONSERVATION IN A UTILITY'S RATE BASE; TO REQUIRE
8 THE PUBLIC SERVICE COMMISSION TO ALLOW A HIGHER INCREMENTAL
9 RATE OF RETURN ON CONSERVATION; AMENDING SECTION 15-32-107,
10 MCA."
11
12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
13 NEW SECTION. Section 1. Definitions. As used in
14 [sections 1 through 6], the following definitions apply:
15 (1) "Avoided costs" means the incremental costs, as
16 determined by the commission, to an electric or natural gas
17 utility of energy or capacity, or both, which, but for the
18 purchase of or investment in conservation, the utility would
19 generate or supply itself or purchase from another source.
20 (2) "Commission" means the Montana public service
21 commission created in 2-15-2602.
22 (3) "Conservation" means a cost-effective measure that
23 increases energy efficiency and which, over its economic
24 life, costs less than:
25 (a) electricity from a conventional fossil fuel or

1 hydroelectric or nuclear plant; or
2 (b) natural gas from a conventional source.
3 (4) "Utility" means a person or firm engaged in the
4 business of:
5 (a) interstate or intrastate transportation and local
6 distribution of natural gas for ultimate consumption subject
7 to the commission's jurisdiction under this title; or
8 (b) providing electric service subject to the
9 jurisdiction of the commission under this title.
10 NEW SECTION. Section 2. Utility investment in or
11 purchase of conservation -- approval by commission. (1) A
12 utility may:
13 (a) purchase conservation from a private conservation
14 company; or
15 (b) directly engage in conservation investments.
16 (2) The conservation purchases or investments provided
17 for in subsection (1) are subject to approval by the
18 commission.
19 NEW SECTION. Section 3. Eligible conservation.
20 Conservation purchases or investments are eligible under
21 [sections 1 through 6] if they are made for construction or
22 installation that is begun after [the effective date of this
23 act] and before January 1, 1993, and that, at the time they
24 are placed in the rate base, are determined by the
25 commission to cost no more than 50% of the utility's avoided

1 costs.

2 **NEW SECTION.** Section 4. Commission to include
3 conservation in rate base -- rate of return. (1) In order to
4 encourage the purchase of or investment in conservation by a
5 utility, the commission shall include conservation purchases
6 or investments eligible under [section 3] and in compliance
7 with criteria adopted under [section 5] in a utility's rate
8 base.

9 (2) The commission shall allow a rate of return on
10 purchase of or investment in conservation, established by
11 adding an increment of 2% to the rate of return on common
12 equity permitted on the utility's other investments.

13 (3) The commission shall allow the rate of return
14 increment provided for in subsection (2) for a period not to
15 exceed 30 years after the conservation is first placed in
16 the rate base.

17 **NEW SECTION.** Section 5. Criteria for allowable
18 conservation -- onsite audits. (1) The commission shall
19 establish criteria, including engineering and
20 cost-effectiveness criteria, for conservation that may be
21 placed into a utility's rate base under [sections 1 through
22 6]. The commission may require a utility to conduct onsite
23 energy audits to establish the criteria.

24 (2) The commission may conduct onsite energy audits to
25 insure compliance with the criteria established under

1 subsection (1).

2 **NEW SECTION.** Section 6. Prohibition against utility
3 claiming conservation tax credit. A utility whose
4 conservation is placed in the rate base under [sections 1
5 through 6] may not claim the tax credit allowed in
6 15-32-107.

7 Section 7. Section 15-32-107, MCA, is amended to read:

8 "15-32-107. Loans by utilities and financial
9 institutions -- tax credit for interest differential. (1) A
10 public utility providing electricity or natural gas may
11 install or pay for the installation of energy conservation
12 materials or recognized nonfossil forms of energy generation
13 systems in a dwelling. The utility may agree with the
14 occupant of the dwelling that the occupant shall reimburse
15 the utility for its expenditure in periodic installment
16 payments added to the occupant's regular bill for
17 electricity or natural gas. The utility may charge interest
18 not exceeding the equivalent of 7% per year on the declining
19 balance of the sum advanced for the installation of energy
20 conservation materials and recognized nonfossil forms of
21 energy generation systems.

22 (2) A financial institution, as defined in 32-6-103,
23 may offer and make loans at an interest rate not less than 2
24 percentage points below the discount rate on 90-day
25 commercial paper in effect at the federal reserve bank in

1 the ninth federal reserve district.

2 (3) ~~A Except as provided in subsection (6), a~~ public
 3 utility or a financial institution lending money under this
 4 section may compute the difference between interest it
 5 actually receives on such transactions and the interest
 6 which would have been received at the prevailing average
 7 interest rate for home improvement loans, as prescribed in
 8 rules made by the public service commission. The utility may
 9 apply the difference so computed as a credit against its tax
 10 liability for the electrical energy producer's license tax
 11 under 15-51-101 or for the corporation license tax under
 12 chapter 31, part 1. The public service commission shall
 13 regulate rates in such a manner that a utility making loans
 14 under this section may not make a profit as the result of
 15 this section. The financial institution may apply the
 16 difference so computed as a credit against its tax liability
 17 for the corporation license tax under chapter 31, part 1.

18 (4) A utility may not claim a tax credit under this
 19 section exceeding \$500,000 in any tax year. A financial
 20 institution may not claim a tax credit under this section
 21 exceeding \$2,000 in any tax year.

22 (5) The public service commission may make rules to
 23 implement this section as it shall apply to public utilities
 24 only.

25 ~~(6) A public utility whose purchases of or investments~~

1 ~~in conservation are placed in the rate base as provided in~~
 2 ~~(sections 1 through 6) may not receive a tax credit under~~
 3 ~~subsection (3)."~~

4 ~~NEW SECTION.~~ Section 8. Codification instruction.
 5 Sections 1 through 6 are intended to be codified as an
 6 integral part of Title 69, chapter 3.

-End-

STATE OF MONTANA

REQUEST NO. 466-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 18, , 19 83 , there is hereby submitted a Fiscal Note for Senate Bill 456 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly. Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

Senate Bill 456 allows an electric or gas utility to purchase or invest in cost-effective energy conservation; requires the Public Service Commission to include conservation in a utility's rate base; and requires the Public Service Commission to allow a higher incremental rate of return on conservation.

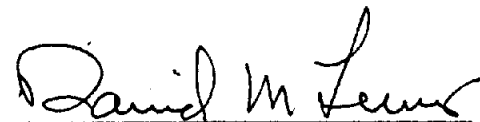
ASSUMPTIONS:

- 1) A mechanical engineer will be hired to establish engineering criteria for conservation measures and make a small number of on-site inspections to insure that conservation measures have been properly installed.

FISCAL IMPACT:

	FY84	FY85	TOTAL BIENNIUM
Mechanical Engineer (G14 = 20% ben)	\$24,118	\$24,118	\$48,236
Operating Expenses	4,000	4,240	8,240
Equipment	1,200	-0-	1,200
Total Cost	<u>\$29,318</u>	<u>\$28,358</u>	<u>\$57,676</u>

FISCAL NOTE 15: Z/1



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-21-83

Approved by Committee
on Business and Industry

SENATE BILL NO. 456

INTRODUCED BY FULLER, HARPER

A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW AN ELECTRIC OR GAS UTILITY TO PURCHASE OR INVEST IN COST-EFFECTIVE ENERGY CONSERVATION; TO REQUIRE THE PUBLIC SERVICE COMMISSION TO INCLUDE CONSERVATION IN A UTILITY'S RATE BASE; TO REQUIRE THE PUBLIC SERVICE COMMISSION TO ALLOW A HIGHER INCREMENTAL RATE OF RETURN ON CONSERVATION; AMENDING SECTION 15-32-107, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

~~NEW SECTION.~~ Section 1. Definitions. As used in [sections 1 through 6], the following definitions apply:

(1) "Avoided costs" means the incremental costs, as determined by the commission, ~~to an electric or natural gas utility of energy or capacity or both, which, but for the purchase of or investment in conservation, the utility would generate or supply itself or purchase from another source which would be incurred by the utility if the utility does not make the purchase of, or investment in, conservation.~~

(2) "Commission" means the Montana public service commission created in 2-15-2602.

(3) "Conservation" means ~~a cost-effective measure that increases energy efficiency and which, over its economic~~

~~life, costs less than:~~

~~(a) electricity from a conventional fossil fuel or hydroelectric or nuclear plant; or~~

~~(b) natural gas from a conventional source;~~

~~(4) "Utility" means a person or firm engaged in the business of:~~

~~(a) interstate or intrastate transportation and local distribution of natural gas for ultimate consumption subject to the commission's jurisdiction under this title; or~~

~~(b) providing electric service subject to the jurisdiction of the commission under this title. ANY REDUCTION IN ELECTRIC POWER CONSUMPTION AS A RESULT OF INVESTMENT IN MEASURES THAT INCREASE THE EFFICIENCY OF ELECTRICITY OR GAS USE IN BUILDING SHELLS, SPACE HEATING OR COOLING EQUIPMENT, WATER HEATING EQUIPMENT, OR REFRIGERATION EQUIPMENT WHICH, OVER ITS ECONOMIC LIFE MEETS THE CRITERIA OF SECTION 31.~~

~~NEW SECTION.~~ Section 2. Utility investment in or purchase of conservation -- approval by commission. (1) A utility may:

(a) purchase conservation from a private conservation company; or

(b) directly engage in conservation investments.

(2) The conservation purchases or investments provided for in subsection (1) are subject to approval by the

commission.

NEW SECTION. Section 3. Eligible conservation.

Conservation purchases or investments are eligible under [sections 1 through 6] if they are made ~~for construction or installation that is begun after~~ to replace, upgrade, or enhance building shells, space heating or cooling equipment, or refrigeration equipment which was installed and in operation in the existing structure as of [the effective date of this act] and ~~before January 1, 1993, and they at the time they are placed in the rate base~~ are determined by the commission to cost no more than 50% of the utility's avoided costs.

NEW SECTION. Section 4. Commission to include conservation in rate base -- rate of return. (1) In order to encourage the purchase of or investment in conservation by a utility, the commission shall include conservation purchases or investments eligible under [section 3] and in compliance with criteria adopted under [section 5] in a utility's rate base.

(2) The commission shall allow a rate of return on purchase of or investment in conservation, established by adding an increment of 2% to the rate of return on common equity permitted on the utility's other investments.

(3) The commission shall allow the rate of return increment provided for in subsection (2) for a period not to

exceed 30 years after the conservation is first placed in the rate base.

NEW SECTION. Section 5. Criteria for allowable conservation -- onsite audits. (1) The commission shall establish APPROVE criteria, including engineering and cost-effectiveness criteria, for conservation that may will be placed into a utility's rate base under [sections 1 through 6]. The commission may require a utility to conduct onsite energy audits to establish the criteria.

(2) The commission may conduct onsite energy audits to insure compliance with the criteria established under subsection (1).

NEW SECTION. Section 6. Prohibition against utility claiming conservation tax credit. A utility whose conservation is placed in the rate base under [sections 1 through 6] may not claim the tax credit allowed in 15-32-107.

Section 7. Section 15-32-107, MCA, is amended to read:

"15-32-107. Loans by utilities and financial institutions -- tax credit for interest differential. (1) A public utility providing electricity or natural gas may install or pay for the installation of energy conservation materials or recognized nonfossil forms of energy generation systems in a dwelling. The utility may agree with the occupant of the dwelling that the occupant shall reimburse

the utility for its expenditure in periodic installment payments added to the occupant's regular bill for electricity or natural gas. The utility may charge interest not exceeding the equivalent of 7% per year on the declining balance of the sum advanced for the installation of energy conservation materials and recognized nonfossil forms of energy generation systems.

(2) A financial institution, as defined in 32-6-103, may offer and make loans at an interest rate not less than 2 percentage points below the discount rate on 90-day commercial paper in effect at the federal reserve bank in the ninth federal reserve district.

(3) ~~* Except as provided in subsection (1),~~ a public utility or a financial institution lending money under this section may compute the difference between interest it actually receives on such transactions and the interest which would have been received at the prevailing average interest rate for home improvement loans, as prescribed in rules made by the public service commission. The utility may apply the difference so computed as a credit against its tax liability for the electrical energy producer's license tax under 15-51-101 or for the corporation license tax under chapter 31, part 1. The public service commission shall regulate rates in such a manner that a utility making loans under this section may not make a profit as the result of

this section. The financial institution may apply the difference so computed as a credit against its tax liability for the corporation license tax under chapter 31, part 1.

(4) A utility may not claim a tax credit under this section exceeding \$500,000 in any tax year. A financial institution may not claim a tax credit under this section exceeding \$2,000 in any tax year.

(5) The public service commission may make rules to implement this section as it shall apply to public utilities only.

~~(1) A public utility whose purchases of or investments in conservation are placed in the rate base as provided in [sections 1 through 6] may not receive a tax credit under subsection (3)."~~

~~NEW SECTION.~~ Section 8. Codification instruction. Sections 1 through 6 are intended to be codified as an integral part of Title 69, chapter 3.

-End-

April 12 1983

FREE CONFERENCE COMMITTEE
ON SENATE BILL NO. 456

(Report No. 1, April 12, 1983)

MR. PRESIDENT AND SPEAKER OF THE HOUSE:

We, your Free Conference Committee on Senate Bill No. 456 met April 12, 1983, and considered:

House Business and Industry Committee Amendments to the third reading, blue copy, dated March 22, 1983; and

House Committee of the Whole Amendments to reference copy (salmon) dated March 28, 1983 and House Committee of the Whole Amendments to third reading, blue copy, dated March 23, 1983, and March 24, 1983, and recommend as follows:

That the Senate accede to all House amendments listed above.

That Senate Bill No. 456 be further amended as specified in CLERICAL INSTRUCTION NO. 1.

That the reference copy of Senate Bill No. 456 read as specified in the CLERICAL INSTRUCTIONS:

And, that the Free Conference Committee Report on Senate Bill No. 456 be adopted.

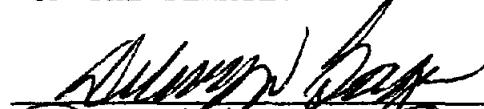

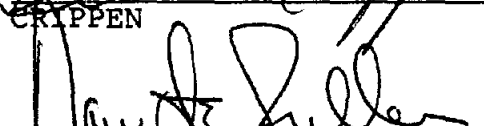
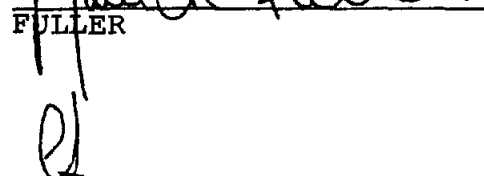
CLERICAL INSTRUCTIONS:

1. Page 5, line 14.

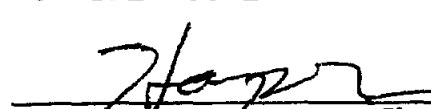
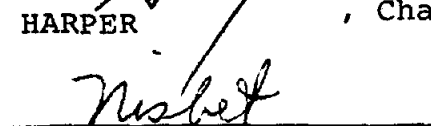
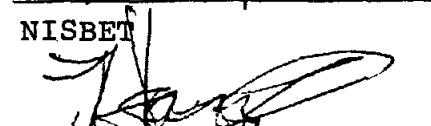
Following: "6]."

Strike: the remainder of line 14 and strike lines 15 and 16 in their entirety.

FOR THE SENATE:


GAGE, Chairman

CRIPPEN

FULLER


FOR THE HOUSE:


HARPER, Chairman

NISBET

HARP

SENATE BILL NO. 456

INTRODUCED BY FULLER, HARPER

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(2) "Commission" means the Montana public service commission created in 2-15-2602.

(3) "Conservation" means ~~a cost-effective measure that increases energy efficiency and which, over its economic~~

~~life, costs less than:~~

~~(a) electricity from a conventional fossil fuel or hydroelectric or nuclear plant; or~~

~~(b) natural gas from a conventional source;~~

~~(4) "Utility" means a person or firm engaged in the business of:~~

~~(a) interstate or intrastate transportation and local distribution of natural gas for ultimate consumption subject to the commission's jurisdiction under this title; or~~

~~(b) providing electric service subject to the jurisdiction of the commission under this title~~ ANY REDUCTION IN ELECTRIC POWER CONSUMPTION AS A RESULT OF INVESTMENT IN MEASURES THAT INCREASE THE EFFICIENCY OF ELECTRICITY OR GAS USE IN BUILDING SHELLS, SPACE HEATING OR COOLING EQUIPMENT, WATER HEATING EQUIPMENT, OR REFRIGERATION EQUIPMENT, WHICH, OVER ITS ECONOMIC LIFE, MEETS THE CRITERIA OF [SECTION 3].

NEW SECTION. Section 2. Utility investment in or purchase of conservation -- approval by commission. (1) A utility may:

(a) purchase conservation from a private conservation company; or

(b) directly engage in conservation investments.

(2) The conservation purchases or investments provided for in subsection (1) are subject to approval by the

1 commission.

2 NEW SECTION. Section 3. Eligible conservation.
3 Conservation purchases or investments are eligible under
4 [sections 1 through 6] if they are made ~~for construction or~~
5 ~~installation that is begun after~~ TO REPLACE, UPGRADE, OR
6 ENHANCE BUILDING SHELLS, SPACE HEATING OR COOLING EQUIPMENT,
7 OR REFRIGERATION EQUIPMENT WHICH WAS INSTALLED AND IN
8 OPERATION IN THE EXISTING STRUCTURE AS OF [the effective
9 date of this act] and ~~before January 1, 1993, and that at~~
10 ~~the time they are placed in the rate base~~ are determined by
11 the commission to cost no more than 50% of the utility's
12 avoided costs.

13 NEW SECTION. Section 4. Commission to include
14 conservation in rate base -- rate of return. (1) In order to
15 encourage the purchase of or investment in conservation by a
16 utility, the commission shall include conservation purchases
17 or investments eligible under [section 3] and in compliance
18 with criteria adopted under [section 5] in a utility's rate
19 base.

20 (2) The commission shall allow a rate of return on
21 purchase of or investment in conservation, established by
22 adding an increment of 2% to the rate of return on common
23 equity permitted on the utility's other investments.

24 (3) The commission shall allow the rate of return
25 increment provided for in subsection (2) for a period not to

1 exceed 30 years after the conservation is first placed in
2 the rate base.

3 NEW SECTION. Section 5. Criteria for allowable
4 conservation -- onsite audits. (1) The commission shall
5 establish APPROX criteria, including engineering and
6 cost-effectiveness criteria, for conservation that WILL
7 be placed into a utility's rate base under [sections 1
8 through 6]. The commission may require a utility to conduct
9 onsite energy audits to establish the criteria.

10 (2) The commission may conduct onsite energy audits to
11 insure compliance with the criteria established under
12 subsection (1).

13 NEW SECTION. Section 6. Prohibition against utility
14 claiming conservation tax credit. A utility whose
15 conservation is placed in the rate base under [sections 1
16 through 6] may not claim the tax credit allowed in
17 15-32-107.

18 Section 7. Section 15-32-107, MCA, is amended to read:

19 "15-32-107. Loans by utilities and financial
20 institutions -- tax credit for interest differential. (1) A
21 public utility providing electricity or natural gas may
22 install or pay for the installation of energy conservation
23 materials or recognized nonfossil forms of energy generation
24 systems in a dwelling. The utility may agree with the
25 occupant of the dwelling that the occupant shall reimburse

1 the utility for its expenditure in periodic installment
2 payments added to the occupant's regular bill for
3 electricity or natural gas. The utility may charge interest
4 not exceeding the equivalent of 7% per year on the declining
5 balance of the sum advanced for the installation of energy
6 conservation materials and recognized nonfossil forms of
7 energy generation systems.

8 (2) A financial institution, as defined in 32-6-103,
9 may offer and make loans at an interest rate not less than 2
10 percentage points below the discount rate on 90-day
11 commercial paper in effect at the federal reserve bank in
12 the ninth federal reserve district.

13 (3) ~~★ Except as provided in subsection (6),~~ a public
14 utility or a financial institution lending money under this
15 section may compute the difference between interest it
16 actually receives on such transactions and the interest
17 which would have been received at the prevailing average
18 interest rate for home improvement loans, as prescribed in
19 rules made by the public service commission. The utility may
20 apply the difference so computed as a credit against its tax
21 liability for the electrical energy producer's license tax
22 under 15-51-101 or for the corporation license tax under
23 chapter 31, part 1. The public service commission shall
24 regulate rates in such a manner that a utility making loans
25 under this section may not make a profit as the result of

1 this section. The financial institution may apply the
2 difference so computed as a credit against its tax liability
3 for the corporation license tax under chapter 31, part 1.

4 (4) A utility may not claim a tax credit under this
5 section exceeding \$500,000 in any tax year. A financial
6 institution may not claim a tax credit under this section
7 exceeding \$2,000 in any tax year.

8 (5) The public service commission may make rules to
9 implement this section as it shall apply to public utilities
10 only.

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12 ~~in conservation are placed in the rate base as provided in~~
13 ~~[sections 1 through 6] may not receive a tax credit under~~
14 ~~subsection (3)."~~

15 ~~NEW SECTION.~~ Section 8. Codification instruction.
16 Sections 1 through 6 are intended to be codified as an
17 integral part of Title 69, chapter 3.

-End-

1. Title, line 5
Strike: "OR INVEST IN"
2. Title, line 7
Strike: "REQUIRE"
Insert: "ALLOW"
3. Page 1, line 15
Following: "incremental"
Insert: "incremental"
4. Page 1, line 20
Strike: Line 20 in its entirety and line 21 through "CONSERVATION"
Insert: "to an electric or natural gas utility of energy or capacity,
or both, which, but for the purchase of conservation, the utility
would generate or supply itself or purchase from another source"
5. Page 2, line 12
Following: "POWER"
Insert: "or natural gas"
6. Page 2, line 13
Following:
Strike: "INVESTMENT IN"
Insert: "purchase of"
7. Page 2, line 16
Following: "EQUIPMENT"
Insert: "or other cost effective measures"
8. Page 2, line 18
Following: line 17
Insert: "(4) 'Residential Building' means a building used for
residential occupancy that:
(a) was fully constructed and habitable as of [the effective date
of this act];
(b) has a system for heating, cooling, or both that uses a fuel
supplied by the utility; and
(c) contains at least one, but not more than four separately or
centrally heated dwelling units, or contains more than four sep-
arately heated, or cooled, or both heated and cooled units."
9. Page 2, line 18
Strike: "investment in or"
10. Page 2, line 20
Strike: "."
11. Page 2, line 21
Strike: "(a)"
Following: "purchase conservation"
Strike: the remainder of line 21 and line 22 in its entirety
12. Page 2, line 23
Strike: "(b)"
Insert: "by"

- Strike: "engage"
Insert: "engaging"
13. Page 2, line 24
Strike: "or investments"
 14. Page 3, line 2
Following: line 1
Insert: "(3) Cost-effective conservation measures approved by
the commission must, at the customer's discretion, be installed
by either:
(a) a person or a private firm, or
(b) the customer himself"
 15. Page 3, line 3
Strike: "or investments"
 16. Page 3, line 15
Strike: "or investment in"
 17. Page 2, line 17
Strike: "or investments"
 18. Page 3, line 21
Strike: "or investment in"
Strike: ", established by"
 19. Page 3, line 22
Strike: "adding"
Insert: "not to exceed"
Following: "2½"
Insert: "added"
Following: "to"
Insert: ", and not to be less than,"
 20. Page 4, line 3
Following: line 2
Insert: "(4) the commission shall prescribe amortization periods
for conservation that is included in a utility's rate base."
 21. Page 4, line 5
Following: "APPROVE"
Insert: "cost effectiveness"
Following: "criteria"
Strike: remainder of line 5 through "criteria," on line 6
 22. Page 4, line 9
Strike: "criteria"
Insert: "potential for conservation measures"

AND AS AMENDED
BE CONCURRED IN

STATEMENT OF INTENT
SENATE BILL #456

A statement of intent is necessary for this bill because it directs the Public Service Commission to adopt rules governing the installation of cost-effective conservation measures and the reflection of those measures in a utility's rate base. The commission must approve criteria and standards for:

- (1) allowable conservation measures from an engineering standpoint;
- (2) cost-effectiveness;
- (3) on-site energy audits;
- (4) conservation corresponding to end-use of energy that a utility provides;
- (5) inspections;
- (6) inclusion of conservation in a utility's rate base;
- (7) other procedures necessary to implement this act.

In adopting cost-effectiveness and engineering criteria, the commission is directed to consult with the department of natural resources and conservation and with Montana's representatives to the Northwest Power Council.

It is not the intent of the legislature to allow grants from the Bonneville Power Administration for purposes of conservation to be placed in the rate base.

HOUSE COMMITTEE OF THE WHOLE

March 24, 1983

amendment to Senate Bill 456, Third reading, blue copy, with House committee amendments of 3/22/83, as follows:

1. Strike House Business and Industry Committee amendment # 19.

2. Page 3, line 20

Strike: "shall"

Insert: "may"

Following: "allow"

Strike: remainder of line 20 through "adding" on line 22.

3. Page 3, line 22.

Following: "increment of"

Insert: "up to"

Following: "2%"

Insert: "added"

March 23, 1983

HOUSE COMMITTEE OF THE WHOLE AMENDMENTS TO SENATE BILL 456,
THIRD READING COPY (BLUE) WITH HOUSE BUSINESS AND INDUSTRY
COMMITTEE STATEMENT OF INTENT, March 22, 1983

AMENDMENTS TO THE STATEMENT OF INTENT:

1) Page 1, following: "(1) allowable"

Insert: "cost effective"

Same line, strike: "from an engineering standpoint"

2) Strike: "(2) cost-effectiveness;"

Re-number following subsections

March 23, 1983

HOUSE COMMITTEE OF THE WHOLE AMENDMENTS TO SENATE BILL 456,
THIRD READING COPY (BLUE) WITH HOUSE BUSINESS AND INDUSTRY
COMMITTEE AMENDMENTS OF March 22, 1983

- 1) Strike: House Business and Industry Committee amendments: 1, 6,
9 through 13, and 15 through 18
- 2) House Business and Industry Committee amendment 14
Strike: "must"
Insert: "may"
Following: "firm;"
Strike: "or"
Following: "himself"
Insert: "; or (c) the utility"
- 3) Page 2, line 21
Strike: "private" and through "company" on line 22
Insert: "person or private firm"
- 4) Page 3, line 8
Strike: "STRUCTURE"
Insert: "residential building"
- 5) Page 3, line 21
Strike: "established by"

ADOPT

MARCH 28, 1983

HOUSE COMMITTEE OF THE WHOLE AMENDMENTS TO SENATE BILL 456,
REFERENCE COPY (SALMON)

Page 4, line 18

Following: "(2)"

Strike: line 18 and through "investments" on line 23

Insert: "In establishing such rate of return the commission may allow an
increment of up to 2% added to the rate of return on common equity
permitted on the utility's other investments"

ADOPT

1 STATEMENT OF INTENT

2 SENATE BILL 456

3 House Business and Industry Committee

4

5 A statement of intent is necessary for this bill
6 because it directs the Public Service Commission to adopt
7 rules governing the installation of cost-effective
8 conservation measures and the reflection of those measures
9 in a utility's rate base. The commission must approve
10 criteria and standards for:

11 (1) allowable ~~COST-EFFECTIVE~~ conservation measures
12 from an engineering standpoint;

13 ~~(2) --cost-effectiveness--~~

14 ~~(3)(2)~~ on-site energy audits;

15 ~~(4)(3)~~ conservation corresponding to end-use of energy
16 that a utility provides;

17 ~~(5)(4)~~ inspections;

18 ~~(6)(5)~~ inclusion of conservation in a utility's rate
19 base;

20 ~~(7)(6)~~ other procedures necessary to implement this
21 act.

22 In adopting cost effectiveness and engineering
23 criteria, the commission is directed to consult with the
24 Department of Natural Resources and Conservation and with
25 Montana's representatives to the Northwest Power Council.

1 It is not the intent of the legislature to allow grants
2 from the Bonneville Power Administration for purposes of
3 conservation to be placed in the rate base.

SENATE BILL NO. 456

INTRODUCED BY FULLER, HARPER

A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW AN ELECTRIC OR GAS UTILITY TO PURCHASE OR--INVEST--IN OR INVEST IN COST-EFFECTIVE ENERGY CONSERVATION; TO REQUIRE THE PUBLIC SERVICE COMMISSION TO INCLUDE CONSERVATION IN A UTILITY'S RATE BASE; TO REQUIRE ALLOW THE PUBLIC SERVICE COMMISSION TO ALLOW A HIGHER INCREMENTAL RATE OF RETURN ON CONSERVATION; AMENDING SECTION 15-32-107, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. Section 1. Definitions. As used in [sections 1 through 6], the following definitions apply:

(1) "Avoided costs" means the incremental INCREMENTAL costs, as determined by the commission, to--an--electric--or natural--gas--utility-of-energy-or-capacity--or-both--which, but-for-the-purchase-of-or-investment-in--conservation--the utility--would--generate--or--supply-itself-or-purchase-from another-source ~~WHICH WOULD BE INCURRED BY THE UTILITY IF THE UTILITY DOES NOT MAKE THE PURCHASE OR INVESTMENT IN CONSERVATION TO AN ELECTRIC OR NATURAL GAS UTILITY OF ENERGY OR CAPACITY, OR BOTH, WHICH, BUT FOR THE PURCHASE OF CONSERVATION, THE UTILITY WOULD GENERATE OR SUPPLY ITSELF OR PURCHASE FROM ANOTHER SOURCE.~~

(2) "Commission" means the Montana public service commission created in 2-15-2602.

(3) "Conservation" means ~~a cost-effective measure that increases energy efficiency and which over its economic life costs less than~~

~~(a) electricity from a conventional fossil fuel or hydroelectric or nuclear plants or~~

~~(b) natural gas from a conventional source or~~

~~(4) "Utility" means a person or firm engaged in the business of~~

~~(a) interstate or intrastate transportation and local distribution of natural gas for ultimate consumption subject to the commission's jurisdiction under this title; or~~

~~(b) providing electric service subject to the jurisdiction of the commission under this title~~ ANY REDUCTION IN ELECTRIC POWER OR NATURAL GAS CONSUMPTION AS A RESULT OF INVESTMENT IN PURCHASE OR INVESTMENT IN MEASURES THAT INCREASE THE EFFICIENCY OF ELECTRICITY OR GAS USE IN BUILDING SHELLS, SPACE HEATING OR COOLING EQUIPMENT, WATER HEATING EQUIPMENT, OR REFRIGERATION EQUIPMENT OR OTHER COST-EFFECTIVE MEASURES WHICH, OVER ITS ECONOMIC LIFE, MEET THE CRITERIA OF [SECTION 3].

~~(4) "RESIDENTIAL BUILDING" means a building used for residential occupancy that:~~

~~(a) was fully constructed and habitable as of (the~~

1 EFFECTIVE DATE OF THIS ACT:

2 (B) HAS A SYSTEM FOR HEATING, COOLING, OR BOTH, THAT

3 USES A FUEL SUPPLIED BY THE UTILITY; AND

4 (C) CONTAINS AT LEAST ONE BUT NOT MORE THAN FOUR

5 SEPARATELY OR CENTRALLY HEATED DWELLING UNITS OR CONTAINS

6 MORE THAN FOUR SEPARATELY HEATED OR COOLED OR BOTH HEATED

7 AND COOLED UNITS.

8 NEW SECTION. Section 2. Utility investment---in--or

9 INVESTMENT IN OR purchase of conservation -- approval by

10 commission. (1) A utility may:

11 (a) purchase conservation from---a---private

12 conservation company or FROM A PRIVATE-CONSERVATION-COMPANY

13 PERSON OR PRIVATE FIRM; OR

14 (b) BY directly engage ENGAGING ENGAGE in

15 conservation investments.

16 (2) The conservation purchases or--investments OR

17 INVESTMENTS provided for in subsection (1) are subject to

18 approval by the commission.

19 (3) COST-EFFECTIVE CONSERVATION MEASURES APPROVED BY

20 THE COMMISSION MUST MAY, AT THE CUSTOMER'S DISCRETION, BE

21 INSTALLED BY EITHER:

22 (A) A PERSON OR A PRIVATE FIRM; OR

23 (B) THE CUSTOMER HIMSELF; OR

24 (C) THE UTILITY.

25 NEW SECTION. Section 3. Eligible conservation.

1 Conservation purchases or--investments OR INVESTMENTS are

2 eligible under [sections 1 through 6] if they are made for

3 construction or installation that is begun after IQ REPLACE,

4 UPGRADE, OR ENHANCE BUILDING SHELLS, SPACE HEATING OR

5 COOLING EQUIPMENT, OR REFRIGERATION EQUIPMENT WHICH HAS

6 INSTALLED AND IN OPERATION IN THE EXISTING STRUCTURE

7 RESIDENTIAL BUILDING AS OF [the effective date of this act]

8 and before January 1, 1993, and that at the time they are

9 placed in the rate base are determined by the commission to

10 cost no more than 50% of the utility's avoided costs.

11 NEW SECTION. Section 4. Commission to include

12 conservation in rate base -- rate of return. (1) In order to

13 encourage the purchase of or--investment in OR INVESTMENT IN

14 conservation by a utility, the commission shall include

15 conservation purchases or--investments OR INVESTMENTS

16 eligible under [section 3] and in compliance with criteria

17 adopted under [section 5] in a utility's rate base.

18 (2) The commission shall MAY allow a rate of return on

19 purchase of or--investment in OR INVESTMENT IN conservation

20 established--by ESTABLISHED BY adding NOT TO EXCEED ADDING

21 an increment of UP TO 2% ABOVE ADDED to AND NOT TO BE LESS

22 THAN the rate of return on common equity permitted on the

23 utility's other investments.

24 (3) The commission shall allow the rate of return

25 increment provided for in subsection (2) for a period not to

1 exceed 30 years after the conservation is first placed in
2 the rate base.

3 ~~(4) THE COMMISSION SHALL PRESCRIBE AMORTIZATION~~
4 ~~PERIODS FOR CONSERVATION THAT IS INCLUDED IN A UTILITY'S~~
5 ~~RATE BASE.~~

6 ~~NEW SECTION.~~ Section 5. Criteria for allowable
7 conservation -- onsite audits. (1) The commission shall
8 establish ~~APPROVE COST-EFFECTIVENESS~~ criteria ~~including~~
9 ~~engineering and cost-effectiveness criteria~~ for
10 conservation that may ~~WILL~~ be placed into a utility's rate
11 base under [sections 1 through 6]. The commission may
12 require a utility to conduct onsite energy audits to
13 establish the criteria ~~POTENTIAL FOR CONSERVATION MEASURES.~~

14 (2) The commission may conduct onsite energy audits to
15 insure compliance with the criteria established under
16 subsection (1).

17 ~~NEW SECTION.~~ Section 6. Prohibition against utility
18 claiming conservation tax credit. A utility whose
19 conservation is placed in the rate base under [sections 1
20 through 6] may not claim the tax credit allowed in
21 15-32-107.

22 Section 7. Section 15-32-107, MCA, is amended to read:
23 "15-32-107. Loans by utilities and financial
24 institutions -- tax credit for interest differential. (1) A
25 public utility providing electricity or natural gas may

1 install or pay for the installation of energy conservation
2 materials or recognized nonfossil forms of energy generation
3 systems in a dwelling. The utility may agree with the
4 occupant of the dwelling that the occupant shall reimburse
5 the utility for its expenditure in periodic installment
6 payments added to the occupant's regular bill for
7 electricity or natural gas. The utility may charge interest
8 not exceeding the equivalent of 7% per year on the declining
9 balance of the sum advanced for the installation of energy
10 conservation materials and recognized nonfossil forms of
11 energy generation systems.

12 (2) A financial institution, as defined in 32-6-103,
13 may offer and make loans at an interest rate not less than 2
14 percentage points below the discount rate on 90-day
15 commercial paper in effect at the federal reserve bank in
16 the ninth federal reserve district.

17 (3) ~~★ Except as provided in subsection (6),~~ a public
18 utility or a financial institution lending money under this
19 section may compute the difference between interest it
20 actually receives on such transactions and the interest
21 which would have been received at the prevailing average
22 interest rate for home improvement loans, as prescribed in
23 rules made by the public service commission. The utility may
24 apply the difference so computed as a credit against its tax
25 liability for the electrical energy producer's license tax

1 under 15-51-101 or for the corporation license tax under
2 chapter 31, part 1. The public service commission shall
3 regulate rates in such a manner that a utility making loans
4 under this section may not make a profit as the result of
5 this section. The financial institution may apply the
6 difference so computed as a credit against its tax liability
7 for the corporation license tax under chapter 31, part 1.

8 (4) A utility may not claim a tax credit under this
9 section exceeding \$500,000 in any tax year. A financial
10 institution may not claim a tax credit under this section
11 exceeding \$2,000 in any tax year.

12 (5) The public service commission may make rules to
13 implement this section as it shall apply to public utilities
14 only.

15 ~~(6) A public utility whose purchases of or investments~~
16 ~~in conservation are placed in the rate base as provided in~~
17 ~~[sections 1 through 6] may not receive a tax credit under~~
18 ~~subsection (3)."~~

19 **NEW SECTION.** Section 8. Codification Instruction.
20 Sections 1 through 6 are intended to be codified as an
21 integral part of Title 69, chapter 3.

-End-

1 STATEMENT OF INTENT

2 SENATE BILL 456

3 House Business and Industry Committee

4

5 A statement of intent is necessary for this bill
6 because it directs the Public Service Commission to adopt
7 rules governing the installation of cost-effective
8 conservation measures and the reflection of those measures
9 in a utility's rate base. The commission must approve
10 criteria and standards for:

11 (1) allowable ~~COST-EFFECTIVE~~ conservation measures
12 from an engineering standpoint;

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19 base;

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(2) "Commission" means the Montana public service commission created in 2-15-2602.

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(1) "RESIDENTIAL BUILDING" MEANS A BUILDING USED FOR RESIDENTIAL OCCUPANCY THAT:

(a) WAS FULLY CONSTRUCTED AND HABITABLE AS OF THE

1 EFFECTIVE DATE OF THIS ACT:

2 (B) HAS A SYSTEM FOR HEATING, COOLING, OR BOTH, THAT
3 USES A FUEL SUPPLIED BY THE UTILITY; AND

4 (C) CONTAINS AT LEAST ONE BUT NOT MORE THAN FOUR
5 SEPARATELY OR CENTRALLY HEATED DWELLING UNITS OR CONTAINS
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5 COOLING EQUIPMENT, OR REFRIGERATION EQUIPMENT WHICH HAS
6 INSTALLED AND IN OPERATION IN THE EXISTING STRUCTURE
7 RESIDENTIAL BUILDING AS OF [the effective date of this act]
8 and before January 1, 1993, and that at the time they are
9 placed in the rate base are determined by the commission to
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24 RETURN THE COMMISSION MAY ALLOW AN INCREMENT OF UP TO 2%
25 ADDED TO THE RATE OF RETURN ON COMMON EQUITY PERMITTED ON

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4 exceed 30 years after the conservation is first placed in
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25 Section 7. Section 15-32-107, MCA, is amended to read:

1 *15-32-107. Loans by utilities and financial
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5 materials or recognized nonfossil forms of energy generation
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7 occupant of the dwelling that the occupant shall reimburse
8 the utility for its expenditure in periodic installment
9 payments added to the occupant's regular bill for
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11 not exceeding the equivalent of 7% per year on the declining
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16 may offer and make loans at an interest rate not less than 2
17 percentage points below the discount rate on 90-day
18 commercial paper in effect at the federal reserve bank in
19 the ninth federal reserve district.

20 (3) ~~Except as provided in subsection (1),~~ a public
21 utility or a financial institution lending money under this
22 section may compute the difference between interest it
23 actually receives on such transactions and the interest
24 which would have been received at the prevailing average
25 interest rate for home improvement loans, as prescribed in

rules made by the public service commission. The utility may apply the difference so computed as a credit against its tax liability for the electrical energy producer's license tax under 15-51-101 or for the corporation license tax under chapter 31, part 1. The public service commission shall regulate rates in such a manner that a utility making loans under this section may not make a profit as the result of this section. The financial institution may apply the difference so computed as a credit against its tax liability for the corporation license tax under chapter 31, part 1.

(4) A utility may not claim a tax credit under this section exceeding \$500,000 in any tax year. A financial institution may not claim a tax credit under this section exceeding \$2,000 in any tax year.

(5) The public service commission may make rules to implement this section as it shall apply to public utilities only.

~~(6) A public utility whose purchases of or investments in conservation are placed in the rate base as provided in [sections 1 through 6] may not receive a tax credit under subsection (1).~~

NEW SECTION. Section 8. Codification instruction. Sections 1 through 6 are intended to be codified as an integral part of Title 69, chapter 3.

-End-

1 STATEMENT OF INTENT

2 SENATE BILL 456

3 House Business and Industry Committee
4

5 A statement of intent is necessary for this bill
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16 that a utility provides;
17 ~~†5†141~~ inspections;
18 ~~†6†151~~ inclusion of conservation in a utility's rate
19 base;
20 ~~†7†161~~ other procedures necessary to implement this
21 act.

22 In adopting cost effectiveness and engineering
23 criteria, the commission is directed to consult with the
24 Department of Natural Resources and Conservation and with
25 Montana's representatives to the Northwest Power Council.

1 It is not the intent of the legislature to allow grants
2 from the Bonneville Power Administration for purposes of
3 conservation to be placed in the rate base.

REFERENCE BILL: Includes Free Joint
Conference Committee Report
Dated 4-1-83

SENATE BILL NO. 456

INTRODUCED BY FULLER, HARPER

A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW AN ELECTRIC OR GAS UTILITY TO PURCHASE OR--INVEST--IN OR INVEST IN COST-EFFECTIVE ENERGY CONSERVATION; TO REQUIRE THE PUBLIC SERVICE COMMISSION TO INCLUDE CONSERVATION IN A UTILITY'S RATE BASE; TO REQUIRE ALLOW THE PUBLIC SERVICE COMMISSION TO ALLOW A HIGHER INCREMENTAL RATE OF RETURN ON CONSERVATION; AMENDING SECTION 15-32-107, MCA."

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REDUCTION IN ELECTRIC POWER OR NATURAL GAS CONSUMPTION AS A RESULT OF INVESTMENT IN PURCHASE OR INVESTMENT IN MEASURES THAT INCREASE THE EFFICIENCY OF ELECTRICITY OR GAS USE IN BUILDING SHELLS, SPACE HEATING OR COOLING EQUIPMENT, WATER HEATING EQUIPMENT, OR REFRIGERATION EQUIPMENT OR OTHER COST-EFFECTIVE MEASURES WHICH, OVER ITS ECONOMIC LIFE, MEET THE CRITERIA OF [SECTION 3].

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 15 conservation purchases or--investments OR INVESTMENTS
 16 eligible under [section 3] and in compliance with criteria
 17 adopted under [section 5] in a utility's rate base.

18 (2) The commission shall MAY allow a rate of return on
 19 purchase of or--investment in OR--INVESTMENT--IN conservation
 20 established--by ESTABLISHED BY adding NOT TO EXCEED ADDING
 21 an increment of UP TO 2% ADDED ADDED TO AND NOT TO BE LESS
 22 THAN--the--rate--of--return--on--common--equity--permitted--on--the
 23 utility's other investments IN ESTABLISHING SUCH RATE OF
 24 RETURN THE COMMISSION MAY ALLOW AN INCREMENT OF UP TO 2%
 25 ADDED TO THE RATE OF RETURN ON COMMON EQUITY PERMITTED ON

1 THE UTILITY'S OTHER INVESTMENTS.

2 (3) The commission shall allow the rate of return
3 increment provided for in subsection (2) for a period not to
4 exceed 30 years after the conservation is first placed in
5 the rate base.

6 ~~(4) THE COMMISSION SHALL PRESCRIBE AMORTIZATION~~
7 ~~PERIODS FOR CONSERVATION THAT IS INCLUDED IN A UTILITY'S~~
8 ~~RATE BASE.~~

9 NEW SECTION. Section 5. Criteria for allowable
10 conservation -- onsite audits. (1) The commission shall
11 establish APPROVE COST-EFFECTIVENESS criteria--including
12 engineering---and---cost-effectiveness---criteria for
13 conservation that may WILL be placed into a utility's rate
14 base under [sections 1 through 6]. ~~The--commission--may~~
15 ~~require--a--utility--to--conduct--onsite--energy--audits--to~~
16 ~~establish-the-criteria POTENTIAL FOR CONSERVATION--MEASURES~~

17 (2) The commission may conduct onsite energy audits to
18 insure compliance with the criteria established under
19 subsection (1).

20 NEW SECTION. Section 6. Prohibition against utility
21 claiming conservation tax credit. A utility whose
22 conservation is placed in the rate base under [sections 1
23 through 6] may not claim the tax credit allowed in
24 15-32-107.

25 Section 7. Section 15-32-107, MCA, is amended to read:

1 "15-32-107. Loans by utilities and financial
2 institutions -- tax credit for interest differential. (1) A
3 public utility providing electricity or natural gas may
4 install or pay for the installation of energy conservation
5 materials or recognized nonfossil forms of energy generation
6 systems in a dwelling. The utility may agree with the
7 occupant of the dwelling that the occupant shall reimburse
8 the utility for its expenditure in periodic installment
9 payments added to the occupant's regular bill for
10 electricity or natural gas. The utility may charge interest
11 not exceeding the equivalent of 7% per year on the declining
12 balance of the sum advanced for the installation of energy
13 conservation materials and recognized nonfossil forms of
14 energy generation systems.

15 (2) A financial institution, as defined in 32-6-103,
16 may offer and make loans at an interest rate not less than 2
17 percentage points below the discount rate on 90-day
18 commercial paper in effect at the federal reserve bank in
19 the ninth federal reserve district.

20 (3) ~~* Except as provided in subsection (6),~~ a public
21 utility or a financial institution lending money under this
22 section may compute the difference between interest it
23 actually receives on such transactions and the interest
24 which would have been received at the prevailing average
25 interest rate for home improvement loans, as prescribed in

1 rules made by the public service commission. The utility may
2 apply the difference so computed as a credit against its tax
3 liability for the electrical energy producer's license tax
4 under 15-51-101 or for the corporation license tax under
5 chapter 31, part 1. The public service commission shall
6 regulate rates in such a manner that a utility making loans
7 under this section may not make a profit as the result of
8 this section. The financial institution may apply the
9 difference so computed as a credit against its tax liability
10 for the corporation license tax under chapter 31, part 1.

11 (4) A utility may not claim a tax credit under this
12 section exceeding \$500,000 in any tax year. A financial
13 institution may not claim a tax credit under this section
14 exceeding \$2,000 in any tax year.

15 (5) The public service commission may make rules to
16 implement this section as it shall apply to public utilities
17 only.

18 ~~(6) A public utility whose purchases of or investments~~
19 ~~in conservation are placed in the rate base as provided in~~
20 ~~[sections 1 through 6] may not receive a tax credit under~~
21 ~~subsection (3)."~~

22 NEW SECTION. Section 8. Codification instruction.
23 Sections 1 through 6 are intended to be codified as an
24 integral part of Title 59, chapter 3.

-End-